COMMUNITY DEVELOPMENT COMMISSION
of the County of Los Angeles
2 Coral Circle • Monterey Park, CA 91755
323.890.7001 • TTY: 323.838.7449 • www.lacdc.org

ADOPTED
Community Development Commission

#26 FEBRUARY 15, 2011

SACHI A. HAMAI
EXECUTIVE OFFICER

February 15, 2011

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

APPROVE AN AMENDMENT TO THE 2010-2011 ACTION PLAN FOR THE ALLOCATION OF NEW FEDERAL FUNDS
(ALL DISTRICTS) (3 VOTE)

SUBJECT

This letter recommends approval of an amendment to the Fiscal Year 2010-2011 Action Plan (Action Plan) for the Los Angeles Urban County to enable the County to receive and administer U.S. Department of Housing and Urban Development (HUD) Neighborhood Stabilization Program (NSP) funds in accordance with the Community Development Block Grant (CDBG) Program requirements. The funds were authorized under Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010, and will provide additional targeted emergency assistance to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. Two prior rounds of NSP funds were authorized under the Housing and Economic Recovery Act of 2008 and the American Recovery and Reinvestment Act of 2009. This letter relates to an item on the agenda of the Board of Commissioners of the Community Development Commission for administration of the funds.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Find that the amendment to the Action Plan is not subject to the California Environmental Quality Act (CEQA) because it is not defined as a project under CEQA and does not have the potential for causing a significant effect on the environment.

2. Amend the Action Plan to enable the County to receive an estimated $9,532,569 in NSP funds from HUD, to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight.

3. Designate the Community Development Commission (Commission) to serve as the agent of the County, for administration of the allocated NSP funds, and designate the Executive Director of the Commission as the official responsible for ensuring the completion of all actions required for administration of the funds.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On May 25, 2010, your Board approved the 2010-2011 One-Year Action Plan for the Thirty-Sixth Program Year (July 1, 2010 through June 30, 2011) to receive CDBG funds from HUD. The Action Plan contains the County's One-Year Action Plan to carry out housing and community development activities funded by the CDBG Program. The proposed additional NSP funds in the amount of $9,532,569 are consistent with the purposes set forth in the Action Plan.

FISCAL IMPACT/FINANCING

There is no impact on the County general fund. This program is being funded by HUD for a total amount of $9,532,569 in NSP funds. These funds will be included for approval through the Commission's annual budget process.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

On July 30, 2008, the U.S. Congress enacted Housing and Economic Recovery Act of 2008, which created the first round of NSP formula funding; hereafter referred to as NSP1. NSP1 funds are authorized under Title III of the Act to provide targeted emergency assistance to every State and certain local grantees to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of home values.

An Action Plan Amendment approved by your Board on November 25, 2008 enabled the County to receive and administer an allocation of $16,847,672 in NSP1 funds, of which $14.6 million has been expended to date. The Commission is currently overseeing the administration of these funds to help low- to moderate-income, first-time homebuyers purchase abandoned and foreclosed properties through the County's Housing Economic Recovery Ownership (HERO) Program. It is also facilitating assistance for the acquisition and rehabilitation of foreclosed homes for rental to low-income persons or households through the Infill Sites Rental Program.

In 2009, Congress approved a second round of NSP funds (NSP2) under the American Recovery and Reinvestment Act of 2009 to be awarded through a competitive-basis. The County applied for NSP2 funds, but was not awarded any funds.

On July 21, 2010, Congress approved an additional allocation of NSP formula funding. Under Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), additional assistance was made available to States and units of local government for the redevelopment of abandoned and foreclosed homes. The Dodd-Frank Act represents a third round of NSP funds, hereafter referred to as NSP3.

The Dodd-Frank Act makes available an additional $1 billion in NSP3 funds. The County will receive an estimated $9,532,569 in NSP3 funding. As part of the application for NSP3 funding, the County is required to submit a substantial amendment to the County's 2010-2011 Action Plan by March 1, 2011. The Action Plan amendment to HUD will describe the intended use of these funds with the understanding that all funds must be expended within the statutory deadline of three years from receipt.

The Commission will once again serve as the agent of the County for administration of the allocated NSP3 funds, when implementing the NSP3 Infill Sites Rental Program. The Program will include financial assistance to developers to purchase 1-4 unit, vacant and abandoned foreclosed homes to rent to households at or below 50% of area median income.

The Program will provide assistance to developers through First Deed of Trust loans at zero percent interest. Properties purchased under the NSP3 Infill Sites Rental Program must also adhere to HUD's NSP3 Program guidelines requiring the purchase price to be at least 1% below the current market appraised value pursuant to an appraisal dated within 60 days of the offer to purchase. Eligible properties must also be located in the approved target area(s). Currently, the target area is the City of Hawaiian Gardens, but the area may be subject to change or expansion if other eligible areas are identified within the unincorporated County or participating cities.

Marketing efforts for the NSP3 Infill Sites Rental Program will include outreach to tenants through local newspapers, flyers, and posting of information on the Commission and County's Housing Resource Center website at http://housing.lacounty.gov.

The Action Plan amendment describing the intended use of NSP3 funds is attached to this Board Letter. A table indicating income limits of recipient families and individuals is provided as Attachment A.

ENVIRONMENTAL DOCUMENTATION

The Action Plan amendment is exempt from the provisions of the National Environmental Policy Act pursuant to 24 Code of Federal Regulations, Part 58, Section 58.34 (a)(1), because it is a planning document and does not involve activities that will alter existing environmental conditions. The Action Plan is not subject to the provisions of CEQA Guidelines 15060(c)(3) and 15378, because it is not defined as a project under CEQA and does not have the potential for causing a significant effect on the environment.

The program within the Action Plan will be reviewed for environmental impact on a project-by-project basis before funding is released.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The NSP3 funded projects incorporated into the amended Action Plan will benefit low-income residents of the unincorporated County and participating cities.

Respectfully submitted,

SEAN ROGAN
Executive Director

SR:ra

Enclosures

Income Limits of NSP3 Recipient Families and Individuals

The following table shows the Los Angeles County's income limits for persons and households whose incomes do not exceed 120 percent of area median income.

Los Angeles –Long Beach, CA HUD Metro FMR Area FY 2010 Income Limits for 120% of HUD Area Median Income								
Household Size	**1 Person**	**2 Person**	**3 Person**	**4 Person**	**5 Person**	**6 Person**	**7 Person**	**8 Person**
Income Limit	**$69,550**	**$79,500**	**$89,400**	**$99,350**	**$107,300**	**$115,250**	**$123,200**	**$131,150**

The following table shows the Los Angeles County's income limits for persons and households whose incomes do not exceed 50 percent of area median income.

Los Angeles –Long Beach, CA HUD Metro FMR Area FY 2010 Income Limits for 50% of HUD Area Median Income								
Household Size	**1 Person**	**2 Person**	**3 Person**	**4 Person**	**5 Person**	**6 Person**	**7 Person**	**8 Person**
Income Limit	**$29,000**	**$33,150**	**$37,300**	**$41,400**	**$44,750**	**$48,050**	**$51,350**	**$54,650**

Source:
http://www.huduser.org/portal/datasets/NSP.html

LOS ANGELES URBAN COUNTY 2010-2011
AMENDMENT TO THE
ONE-YEAR ACTION PLAN

NSP 3 APPLICATION

DRAFT

JANUARY 3, 2011

**COMMUNITY DEVELOPMENT COMMISSION
OF THE COUNTY OF LOS ANGELES**

SEAN ROGAN
Executive Director

OMB Number: 4040-0004
Expiration Date: 01/31/2009

Application for Federal Assistance SF-424

Version 02

*1. Type of Submission:
☐ Preapplication
☒ Application
☐ Changed/Corrected Application

*2. Type of Application
☒ New
☐ Continuation
☐ Revision

* If Revision, select appropriate letter(s)

*Other (Specify)

3. Date Received: 3/1/2010

4. Applicant Identifier: Community Development Commission

5a. Federal Entity Identifier: B-10-UC-06-0505

*5b. Federal Award Identifier: N/A

State Use Only:

6. Date Received by State: N/A

7. State Application Identifier: N/A

8. APPLICANT INFORMATION:

*a. Legal Name: County of Los Angeles

*b. Employer/Taxpayer Identification Number (EIN/TIN): 95-3777596

*c. Organizational DUNS: 961608163

d. Address:

*Street 1: 2 Coral Circle
Street 2:
*City: Monterey Park
County: Los Angeles
*State: California
Province:
*Country: United States
*Zip / Postal Code 91755

e. Organizational Unit:

Department Name: Community Development Commission

Division Name: CDBG Division

f. Name and contact information of person to be contacted on matters involving this application:

Prefix: Ms.
*First Name: Linda
Middle Name:
*Last Name: Jenkins
Suffix:

Title: Manager, CDBG Division

Organizational Affiliation:
N/A

*Telephone Number: (323) 890-7168

Fax Number: (323) 890-8595

*Email: Linda.Jenkins@lacdc.org

Application for Federal Assistance SF-424 Version 02

***9. Type of Applicant 1: Select Applicant Type:**

B.County Government

Type of Applicant 2: Select Applicant Type:

Type of Applicant 3: Select Applicant Type:

*Other (Specify)

***10 Name of Federal Agency:**

U.S. Department of Housing and Urban Development

11. Catalog of Federal Domestic Assistance Number:

TBD

CFDA Title: **COMMUNITY DEVELOPMENT BLOCK GRANT-NEIGHBORHOOD STABILIZATION 3 PROGRAM FUNDING**

***12 Funding Opportunity Number**:

N/A

*Title:

N/A

13. Competition Identification Number:

N/A

Title:

N/A

14. Areas Affected by Project (Cities, Counties, States, etc.):

Los Angeles County

***15. Descriptive Title of Applicant's Project**:

Housing activities and funding levels for low-, moderate- and middle- income Los Angeles Urban County residents. Funds will be used in a select target area based on NSP3 Requirements. All projects are NSP eligible. Estimated funding includes $9,532,569 in New funding.

OMB Number: 4040-0004
Expiration Date: 01/31/2009

Application for Federal Assistance SF-424 Version 02

16. Congressional Districts Of:

*a. Applicant: 22, 25-39, 42, 46 *b. Program/Project: 22, 25-39, 42, 46

17. Proposed Project:

*a. Start Date: 4/16/2011 *b. End Date: 4/16/2013

18. Estimated Funding ($):

*a. Federal	$9,532,569
*b. Applicant	
*c. State	
*d. Local	
*e. Other	
*f. Program Income	$0
*g. TOTAL	$9,532,569

***19. Is Application Subject to Review By State Under Executive Order 12372 Process?**

☐ a. This application was made available to the State under the Executive Order 12372 Process for review on _____

☐ b. Program is subject to E.O. 12372 but has not been selected by the State for review.

☒ c. Program is not covered by E. O. 12372

***20. Is the Applicant Delinquent On Any Federal Debt? (If "Yes", provide explanation.)**

☐ Yes ☒ No

21. *By signing this application, I certify (1) to the statements contained in the list of certifications** and (2) that the statements herein are true, complete and accurate to the best of my knowledge. I also provide the required assurances** and agree to comply with any resulting terms if I accept an award. I am aware that any false, fictitious, or fraudulent statements or claims may subject me to criminal, civil, or administrative penalties. (U. S. Code, Title 218, Section 1001)

☒ ** I AGREE

** The list of certifications and assurances, or an internet site where you may obtain this list, is contained in the announcement or agency specific instructions

Authorized Representative:

Prefix: Mr. *First Name: Sean

Middle Name:

*Last Name: Rogan

Suffix:

*Title: Executive Director

*Telephone Number: (323) 890-7400 Fax Number: (323) 890-8584

* Email: Executive.Director@lacdc.org

*Signature of Authorized Representative: *Date Signed: 3/1/11

Authorized for Local Reproduction

Standard Form 424 (Revised 10/2005)
Prescribed by OMB Circular A-102

OMB Number: 4040-0004
Expiration Date: 01/31/2009

Application for Federal Assistance SF-424

Version 02

***Applicant Federal Debt Delinquency Explanation**

The following should contain an explanation if the Applicant organization is delinquent of any Federal Debt.

N/A

LOS ANGELES URBAN COUNTY

NSP3 APPLICATION

In 2008, Congress appropriated funds under the Housing and Economic Recovery Act (Pub. L 110-289, approved by June 30, 2008) (HERA), for the Neighborhood Stabilization Program (NSP) to assist states and local governments in the redevelopment of abandoned and foreclosed homes in response to the foreclosure crisis. In 2009, Congress appropriated additional neighborhood stabilization funds under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5, approved February 17, 2009) (Recovery Act). In 2010, Congress appropriated a third round of neighborhood stabilization funds under Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010 (Pub. L. 111-202, approved July 21, 2010) (Dodd-Frank Act). When referring to neighborhood stabilization program (NSP) funds appropriated under HERA, this application will use term “NSP1”. When referring to NSP funds appropriated under the Recovery Act funding, this application will use term “NSP2”. When referring to NSP funds appropriated under the Dodd-Frank Act funding, this application will use the term “NSP3”.

In 2008, the Community Development Commission of the County of Los Angeles (CDC) received $16,847,672 in NSP1 funding under HERA. Additionally, in 2009 the CDC applied for NSP2 funds under the Recovery Act, but was not awarded funding.

In October 2010, the U.S. Department of Housing and Urban Development (HUD) released a Notice in the Federal Register (see Appendix F) indicating the formula allocations and program requirements under the Dodd-Frank Act. HUD’s formula determined the amount of funding jurisdictions to be received, and how to target areas of greatest need based on the number and percentages of foreclosures, subprime mortgages, and defaults or delinquencies. The CDC will receive **$9,532,569** in NSP3 to acquire abandoned and foreclosed properties in a targeted area of the County and make the homes available as rental housing for low-income persons.

LOS ANGELES URBAN COUNTY PROGRAM DESCRIPTION AND LEAD AGENCY

The Los Angeles Urban County Program includes the unincorporated areas of the County and small cities under 50,000 in population, which participate in the Urban County programs. HUD awards Community Development Block Grant (CDBG); HOME Investment Partnerships (HOME), which includes the American Dream Downpayment Initiative; and Emergency Shelter Grant (ESG) programs, annually to entitlement jurisdictions such as the Los Angeles Urban County.

The CDC is the lead agency and submits the Annual Action Plan as a requirement for participation in HUD’s Urban County Program. The 2010-2011 Action Plan covers the third of the five (5) program years of the 2008-2013 Housing and Community Development Consolidated Plan for the Los Angeles Urban County and contains the County’s one-year plan to carry out housing and community development activities funded by CDBG, HOME, and ESG funds received in the 2010–2011 program year from HUD.

The CDC administers the County’s CDBG, and HOME programs and the Los Angeles Homeless Services Authority administers the ESG program for the CDC. The CDC will also be the lead agency in administering the NSP3 funding. The CDC’s CDBG and Housing Development and Preservation Divisions will be responsible for planning, reporting, and implementing NSP activities.

Citizen Participation

This application is an amendment to the FY 2010-2011 One-Year Action Plan for the Los Angeles Urban County to enable the County of Los Angeles to receive and administer NSP3 funding. The amended document will be available during a 15-day public review and comment period from January 3, 2011 through January 18, 2011 on the Community Development Commission (CDC) website at: http://www3.lacdc.org/CDCWebsite/CDBG/PlansReports.aspx?id=2520. Hard copies of the amended document will also be available for review at the CDC main office at 2 Coral Circle, Monterey Park, CA 91755.

Citizens wishing to submit written comments during the public review and comment period may mail them, postmarked **no later than January 18, 2011**, to the CDC, to the attention of Raymond Webster, CDBG Division, who can be reached at (323) 890-7317, if there are any questions.

NSP3 Grantee Information

NSP3 Program Administrator Contact Information	
Name (Last, First)	Jenkins, Linda
Email Address	Linda.Jenkins@lacdc.org
Phone Number **Fax Number**	(323) 890-7168 (323)890-8595
Mailing Address **Web Address**	2 Coral Circle, Monterey Park, CA 91755 http://www3.lacdc.org/CDCWebsite/CDBG/PlansReports.aspx?id=2520

1. Areas of Greatest Need

Map Submission

The map showing the target area for the NSP3 program is included as Attachment A. Appendix A also includes a map showing the unemployment rate and NSP3 Foreclosure Need Score.

Data Sources Used to Determine Areas of Greatest Need

Describe the data sources used to determine the areas of greatest need.

Response:

The County used HUD's foreclosure needs scores to determine the area of greatest need. This is the minimum score that each grantee's target area must have. It is based on the state's minimum score which is no less than 17 or the twentieth percentile most needy census tract. The State of California's minimum score is 17.

The needs scores were derived from the following data that was also used to calculate the formula and allocations for each NSP3 grantee:

- Estimated Greater of Foreclosure Starts or REO completions in greatest need neighborhoods (3+ years)
- Homes 90+ days vacant in greatest need neighborhoods (USPS, March 2010)
- Unemployment Change June 2005-June 2010 (BLS)
- Percent Loans Low Cost/High Leverage 2004-2007 (HMDA)
- Percent Loans High Cost/High Leverage 2004-2007 (HMDA)
- Percent Loans High Cost/Low Leverage 2004-2007 (HMDA)
- Metro Area Decline in Home Price Since Maximum (FHFA)

The County also looked at the following data that HUD provided:

- Estimated count of housing units.
- USPS count of addresses for the identified area in March 2010.
- USPS Vacancy Counts-USPS data on addresses not receiving mail in the last 90 days as of March 2010.
- Home Mortgage Disclosure Act (HMDA) data, including count and percent executed between 2004 and 2007.
- The estimated rate of mortgages Serious Delinquent (90+ or more days delinquent or in

foreclosure) in June 2010. McDash Analytics and public by census tract were used for the estimates.

- Estimated number of foreclosure starts in the target area in the past year. Mortgage Bankers Association National Delinquency Survey and HMDA data were used.
- Estimated number of completed foreclosures in the target area in the past year. RealtyTrac data was used.
- Estimated number of properties needed to make an impact in identified target area. The number is assuming that a minimum of 20% of foreclosures or REO in a target area would need to be addressed to make an impact. The purpose of this variable is to encourage grantees to select target areas that are small enough so that their NSP investment has a chance of stabilizing a neighborhood.
- Metropolitan Area percent fall in home value since peak value (Federal Housing Finance Agency Home Price Index through June 2010).
- Place or county unemployment rate June 2005 from the Bureau of Labor Statistics Local Area Unemployment Statistics.
- Place or county unemployment rate June 2010 from the Bureau of Labor Statistics Local Area Unemployment Statistics.

In addition, the County received foreclosure data from Data Quick and housing and income data from the 2005-2009 American Community Survey.

Determination of Areas of Greatest Need and Applicable Tiers

Describe how the areas of greatest need were established and whether a tiered approach is being utilized to determine the distribution of funding.

Response:
A tiered approach is not being utilized as the City of Hawaiian Gardens will be the only target area.

There were many areas that had various degrees of needs. The County looked at all the areas that had a foreclosure need score of at least 17, which is required by HUD, and narrowed down the list. Then, the County looked at the impact numbers which HUD has informed grantees that they must meet in order to stabilize a neighborhood. That limited even further the list of areas because many areas that may have had high foreclosure needs scores also had such high impact scores that, due to limited funding, the County would never be able to meet.

So, the County looked at those areas with high foreclosure need scores and lower impact scores while considering the available funding which is $9,532,569. The County also considered the potential types of eligible NSP3 activities that could be funded. For NSP1, the County funded a first time homebuyer as well as a rental program. Under NSP1, there was not a lot of first time homebuyer activity in many of the target areas due to the lack of demand. Also, some NSP1 target areas, such as Rowland Heights, in which the County was successful in providing first-time homebuyer assistance are no longer eligible under NSP3 as their foreclosure need scores are below 17.

Due to HUD's requirement that grantees select target areas that are small enough to make an impact, the County has elected to implement only the rental program so that it can make a difference in stabilizing a community by not only removing foreclosure properties from the housing stock but also providing rental housing opportunities to low-income households (those at or below 50% of area median income).

Based on the criteria above, the NSP3 Infill Sites Rental Program will provide acquisition and rehabilitation financing for 1-4 unit properties in the City of Hawaiian Gardens. Hawaiian Gardens is identified as the target area because of the following:

- A high foreclosure needs score of 17.18.
- Of the approximately 4,100 housing units, about 70% (2,886) includes 1-4 unit structures & 9% (372) is composed of 2-4 unit structures (2005-2009 American Community Survey).
- High number of foreclosures in the past year (85-Data Quick, 80-HUD data)
- There were 143 Notice of Defaults since September 2009, with 20 of those being 2-4 unit properties (Data Quick). These are properties that are in the process or at risk of foreclosure.
- The estimated rate of Mortgages Serious Delinquent is approximately 16%.
- About 30% of loans executed between 2004-2007 were found to be high cost according to Home Mortgage Disclosure Act data.

The market in Hawaiian Gardens is also ideal for the rental program because it would provide housing to many of its residents that cannot afford to purchase a home due to being unemployed, in poverty, or have low incomes. The following is current income data:

- The unemployment rate has increased from 4.5% in June 2005 to 10.56% in June 2010.
- The poverty rate is high, with 16% of families and 18.3% of individuals being in poverty in the past 12 months according to 2005-2009 American Community Survey estimates.
- Approximately 40% of its residents are low-income which is based on household size. For example, a one-person household would be considered low-income if their income was $29,000 or less and an eight person household with an income of $54,650 or less would be considered low-income. The average household size in Hawaiian Gardens according to the 2005-2009 American Community Survey is about 4 and the median household income is about $46,000.

In addition, the HUD impact score is 45 for Hawaiian Gardens based on a report downloaded through HUD's website (see Attachment B). However, Census Tracts 5551.02 and 5551.04 are split with other areas and HUD's mapping tool doesn't account for that. The County was able to split the tracts and determine an estimate by using the number of housing units. This resulted in a HUD impact score of 30, which is ideal for the rental program because that is the number of housing units that the County can realistically address with the limited funding.

2. Definitions and Descriptions

Definitions

Term	Definition
Blighted Structure	In the October 19, 2010 Notice, HUD has defined a blighted structure when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare. The Notice also indicates that grantees must define blighted structure in the context of state or local law. As such, the following provides the definition of blighted structure under the Amended State of California Health and Safety Code (Effective January 1, 2007):

	Section 33030 (a) It is found and declared that there exist in many communities blighted areas that constitute physical and economic liabilities, requiring redevelopment in the interest of health, safety, and general welfare of the people of these communities and of the state. (b) A blighted area is one that contains BOTH of the following: (1) An area that is predominately urbanized, as the term is defined in section 33320.1, and is an area in which the combination of conditions set forth in Section 33031 is so prevalent and so substantial that it causes a reduction of, or lack of, proper utilization of the area to such an extent that it constitutes a serious physical and economic burden on the community that cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment. (2) An area that is characterized by one or more conditions set forth in any paragraph of subdivision (a) of Section 33031 and one or more conditions set forth in any paragraph of subdivision (b) of Section 33031. (c) A blighted area that contains the conditions described in subdivision (b) may also be characterized by the existence of inadequate public improvements or inadequate water or sewer facilities. **Section 33031** (a) This subdivision describes physical conditions that cause blight: (1) Buildings which are unsafe or unhealthy for persons to live or work. These conditions can be caused by serious building code violations, serious dilapidation and deterioration caused by long-term neglect, construction that is vulnerable to serious damage from seismic or geologic hazards, and faulty or inadequate water or sewer utilities. (2) Conditions that prevent or substantially hinder the viable use or capacity of buildings or lots. This condition may be caused by buildings of a substandard, defective or obsolete design or construction given the present general plan, zoning or other development standards. (3) Adjacent or nearby incompatible land uses that prevent the development of those parcels or other portions of the project area. (4) The existence of subdivided lots that are in multiple ownership and whose physical development has been impaired by their irregular shapes and inadequate sizes, given the present general plan, and zoning standards and present market conditions.

	(b) This subdivision describes economic conditions that cause blight: (1) Depreciated or stagnant property values. (2) Impaired property values, due in significant part, to hazardous wastes on property where the agency may be eligible to use its authority as specified in Article 12.5 (commencing with Section 33459). (3) Abnormally high business vacancies, abnormally low lease rates, or an abnormally high number of abandoned buildings. (4) A serious lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions. (5) Serious residential overcrowding that has resulted in significant public health or safety problems. As used in this paragraph, "overcrowding" means exceeding the standard referenced in Article 5 (commencing with Section 32) of Chapter 1 of Title 25 of the California Code of regulations. (6) An excess of bars, liquor stores, or adult-oriented businesses that has resulted in significant public health, safety, or welfare problems. (7) A high crime rate that constitutes a serious threat to the public safety and welfare.
Affordable Rents	The CDC will use the HOME Program Rent definition for persons 50% or below of area median income, which is 30% of 50% of area median income.

Descriptions

Term	**Definition**
Long-Term Affordability	For homebuyers, the CDC will use the standards of its HOME Homebuyer program where the homebuyer repays the loan upon transfer, sale or refinancing of the home. Such covenants are recorded against the property. For rental, the CDC will use the terms of its HOME Infill Sites Rental Program for acquisition and rehabilitation where the CDC will record affordability covenants requiring affordable rents for the low-income occupants for a period of 55 years.
Housing Rehabilitation Standards	The CDC will apply the Federal Housing Administration (FHA) property Standards, and comply with all applicable state and local laws, codes, and other requirements. To the extent feasible, the CDC will incorporate modern, green building, and energy-efficiency improvements. In instances where gut rehabilitation is performed, the CDC will design to meet the standard for Energy Star Qualified New Homes. For more information about Energy Star Qualified New Homes standards please visit http://www.energystar.gov/index.cfm?c=new_homes.hm_index .

3. Low-Income Targeting

Low-Income Set-Aside Amount

Enter the low-income set-aside percentage in the first field. The field for total funds set aside will populate based on the percentage entered in the first field and the total NSP3 grant.

Identify the estimated amount of funds appropriated or otherwise made available under the NSP3 to be used to provide housing for individuals or families whose incomes do not exceed 50 percent of area median income.
Response: Total low-income set-aside percentage (must be no less than 25 percent): 90% Total funds set aside for low-income individuals = 8,579,312.10

Meeting Low-Income Target

Provide a summary that describes the manner in which the low-income targeting goals will be met.
Response: The CDC will receive $9,532,569 in NSP3 funding and will use 90% of this funding, or $8,579,312.10, for housing individuals and families whose incomes do not exceed 50% of area median income. The NSP3 Infill Sites Rental Program has been designed to provide financial assistance for the creation of affordable rental housing for low-income households. Housing developers will receive secured zero interest deferred loans, to acquire and rehabilitate properties, and agree to operate the housing at affordable rents for a period of 55 years. The properties must have between 1 and 4 units that were foreclosed upon or abandoned pursuant to program guidelines. The specific activity includes the NSP3 Infill Sites Rental Program described on page 9.

4. Acquisition and Relocation

Demolition or Conversion of LMI Units

Does the grantee intend to demolish or convert any low- and moderate-income dwelling units (i.e., ≤ 80% of area median income)?	No

If yes, fill in the table below.

Question	**Number of Units**
The number of low- and moderate-income dwelling units—i.e., ≤ 80% of area median income—reasonably expected to be demolished or converted as a direct result of NSP-assisted activities.	0
The number of NSP affordable housing units made available to low- , moderate-, and middle-income households—i.e., ≤ 120% of area median income—reasonably expected to be produced by activity and income level as provided for in DRGR, by each NSP activity providing such housing (including a proposed time schedule for commencement and completion).	0
The number of dwelling units reasonably expected to be made available for households whose income does not exceed 50 percent of area median income.	0

5. Public Comment

Citizen Participation Plan

Briefly describe how the grantee followed its citizen participation plan regarding this proposed substantial amendment or abbreviated plan.
Response: To encourage citizen participation in the preparation of the substantial amendment to the FY 2010-2011 Action Plan, the CDC will take the following actions in accordance with NSP 3 requirements: • Made the substantial amendment available at the CDC headquarters and post it on the CDC website at http://www.lacdc.org, giving County residents 15 calendar days to review and comment on it (see Attachment C for public notice). • A 15-day public notice will be published before January 3, 2011, in the legal section of the *Los Angeles Times* advertising that the substantial amendment is available for review. The notice will also be published in several local newspapers with daily or weekly circulation and in different languages (see Attachment C). The notice invites citizens to review the proposed substantial amendment to the Action Plan. Citizens are also invited to submit written comments to the offices of the CDC by January 18, 2011. Lastly, the Los Angeles County Board of Supervisors and Board of Commissioners of the CDC will consider and approve the substantial amendment at a board meeting in February prior to its submission to HUD.

Summary of Public Comments Received.

The summary of public comments received and responses to comments will be included in Attachment D.

6. NSP Information by Activity

Activity Number 1	
Activity Name	NSP3 Infill Sites Rental Program
Use	Select all that apply: ☐ Eligible Use A: Financing Mechanisms ☒ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☐ Eligible Use D: Demolition ☐ Eligible Use E: Redevelopment
CDBG Activity or Activities	Acquisition, 24 CFR 570.201 (a); Disposition, 24 CFR 570.201 (b); Relocation, 24 CFR 570.201 (i); and Eligible rehabilitation and preservation activities for homes and other residential properties, 24 CFR 570.202 (a)(1)(b)(1)(2)(4)(5)(6)(7)(iv)(9)(ii)
National Objective	Low-Income Housing to Meet 25% Set-Aside (LH25).
Activity Description	The NSP3 Infill Sites Program has been designed to provide financial assistance for affordable rental housing for low-income persons. The residence must be a vacant property with between 1 and 4 units. The

	residence must have been foreclosed upon or abandoned pursuant to program guidelines. Eligible properties must be located in the rental program target area listed on page 4 of this application. This target area has the greatest need based on the extent of multi-family foreclosures in the community. The Program will provide financial assistance through secured loans. All loans will have zero percent interest and will be secured by a First Deed of Trust. All repayments to the CDC are deferred until sale, transfer, refinancing or full repayment of the first mortgage. The Program will allow for the acquisition and rehabilitation of properties in order to stabilize the targeted community, but more importantly, provide housing opportunities for low-income persons earning 50% or less of area median income. For example, a household of four would be required to have an income of less than $41,400 in today's market. The purchase price must be at least 1% below the current market appraised value of the property pursuant to an appraisal dated within 60 days of the offer to purchase. The appraisal must conform to the requirements of 49 CFR 24.103. In order to meet the NSP3 statutory deadlines to expedite commitment and expenditure of program funds, the CDC's NSP3 Infill Sites Rental Program will be administered through the CDC's NSP1 Infill Sites Rental Program. This will include all relevant aspects that comply with 24 CFR 92.252, including continued affordability ensured by recorded covenants, a minimum 55-year affordability term, rehabilitation standards, zero interest deferred payment loans, affirmative marketing, environmental clearance, relocation, CDC rehabilitation standards, and lead-based paint.	
Location Description	The Program's target area is the City of Hawaiian Gardens, which include Census Tracts 5551.02, 5551.04, 5552.11, and 5552.12.	
Budget	**Source of Funding**	**Dollar Amount**
	NSP3	$8,579,312.10
	(Other funding source)	$
	(Other funding source)	$
Total Budget for Activity		$8,579,312.10 Any Program Income received will be expended by April 16, 2013.
Performance Measures	An estimated 30 housing units will be acquired and rehabilitated for tenants with incomes that do not exceed 50% of area median income.	
Projected Start Date	April 16, 2010	
Projected End Date	April 16, 2013	
Discount Rate	One percent or more	

Financing Activities	Zero percent interest, deferred payment loan, first deed of trust
Loan Term	Fifty five year term
Tenure of Beneficiaries	Rental
Continued Affordability	Continued affordability ensured by recorded covenants for a term of 55-years.
Vicinity Hiring	To the maximum extent feasible, the sub recipient's general contractor will provide for the hiring of employees that reside in the vicinity of NSP3 funded projects or contract with small businesses that are owned and operated by persons residing in the vicinity of NSP3 projects.
Procedures used to create preferences for the development of affordable rental housing	No procedures are required since all NSP3 funds will be allocated to the development of affordable rental housing.
Funds used for the activity are to count toward the requirement to provide benefit to low-income persons	The NSP3 Infill Sites Rental Program will provide financial assistance for affordable rental housing for low-income persons. Tenants must be low-income persons whose incomes do not exceed 50% of area median income. Tenants will pay affordable rents, which will not exceed 30% of 50% of area median income.
Narrative addressing local housing market conditions	In Los Angeles County, due to a lack of affordable housing, households with very low-incomes (50% area median income) are extremely vulnerable, and the impact of the foreclosure crisis on a group already beset by State spending cuts in social programs has been tremendous. Limited affordable housing stock and foreclosures on single- and multi-family properties have decreased the amount and availability of housing. According to an article from the **United Way of Greater Los Angeles** entitled "A Profile of L.A.'s Poor in Turbulent Times", the upheaval that accompanies foreclosure affects rental housing tenants in Los Angeles County perhaps to a greater degree because the percentage of renters is higher than that of the State or the nation. Further, housing costs have increased while wages have remained sluggish. In Los Angeles County, 52% of households are renting. The average fair market rent for a two bedroom apartment is approximately $1,420. In order for this rent to be affordable (without paying more than 30% of income on housing), a household needs one (1) fulltime job paying $27.31 per hour, which is a little over $56,800 annually. A minimum wage worker in California must work 137 hour per week or have 3.4 household members earning minimum wages in order to afford a two bedroom unit. Consequently, minimum wage earners are priced out of the affordable rental housing market. In Los Angeles County this excessive housing cost burden translates into a vacancy rate of six percent. The increase in unemployment also negatively impacts these households living in extreme poverty. Currently the

	unemployment rate in the County is 13.1%; which is 0.9% greater than the State of California and 2.8% greater than the national average, and further increases in unemployment are anticipated. The ongoing State budget deficit with its corresponding layoffs and cuts in spending has contributed to and exacerbated the problem. This will negatively impact stabilization efforts by increasing payment defaults across the County in addition to the number of foreclosures. As a result, families are pooling resources and living together in one unit, leaving units unoccupied. While some landlords have demonstrated more willingness to negotiate lease details, many others fail to inform tenants of pending foreclosure, and renters are evicted with little notice. The CDC's Infill Sites Rental program helps in decreasing the affordable rental housing gap. The Program provides financing to developers to purchase 1-4 unit, vacant and abandoned foreclosed homes to rent to households at or below 50% area median income. The properties continued affordability will be secured by recorded covenants for a minimum 55-year affordability term. With its NSP1 allocation, the CDC financed nine acquisition and rehabilitation loans, generating 21 rental units. The CDC will committed 90% of its NSP3 allocation for its Infill Rental Housing program and expects to generate approximately 30 affordable units with this allocation; nonetheless, additional resources are needed in order to continue making a positive impact on the communities we serve and regain neighborhood stability.	
Responsible Organization	**Name**	Community Development Commission of the County of Los Angeles
	Location	2 Coral Circle, Monterey Park, CA 91755
	Administrator Contact Info	Blair Babcock, Manager Housing Development & Preservation Division (323) 890-7270 blair.babcock@lacdc.org

Activity Number 2	
Activity Name	NSP3 Administration
Use	Select all that apply: ☐ Eligible Use A: Financing Mechanisms ☐ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☐ Eligible Use D: Demolition ☐ Eligible Use E: Redevelopment
CDBG Activity or Activities	Eligible CDBG planning and administration activities are included under 24 CFR 570.205(a)(b), 570.206(a)(1)(2)(3)(4)(b)(c)(e)(f)(g), and pre-award costs under 24 CFR 570.200(h) for permissible costs incurred as of September 29, 2008 for items such as development of the Action Plan amendment and other administration actions necessary to receive the NSP3 grant.
National Objective	Not applicable to administration.

<table>
<tr><td>Activity Description</td><td colspan="2">This activity is for grant administration to administer NSP3 funds.</td></tr>
<tr><td>Location Description</td><td colspan="2">The Program’s target area is the City of Hawaiian Gardens, which include Census Tracts 5551.02, 5551.04, 5552.11, and 5552.12.</td></tr>
<tr><td rowspan="4">Budget</td><td>Source of Funding</td><td>Dollar Amount</td></tr>
<tr><td>NSP3</td><td>$953,256.90</td></tr>
<tr><td>(Other funding source)</td><td>$</td></tr>
<tr><td>(Other funding source)</td><td>$</td></tr>
<tr><td colspan="2">Total Budget for Activity</td><td>$953,256.90</td></tr>
<tr><td>Performance Measures</td><td colspan="2">Not applicable to administration.</td></tr>
<tr><td>Projected Start Date</td><td colspan="2">April 16, 2010</td></tr>
<tr><td>Projected End Date</td><td colspan="2">April 16, 2013</td></tr>
<tr><td rowspan="3">Responsible Organization</td><td>Name</td><td>Community Development Commission of the County of Los Angeles</td></tr>
<tr><td>Location</td><td>2 Coral Circle, Monterey Park, CA 91755</td></tr>
<tr><td>Administrator Contact Info</td><td>Linda Jenkins, Manager
CDBG Division
(323) 890-7168
linda.jenkins@lacdc.org</td></tr>
</table>

7. Pre-Award Costs

The County may incur pre-award costs in compliance with 24 CFR 570.200(h). Permissible costs incurred as of November 1, 2010 for items such as development of the Action Plan amendment and other administrative actions necessary to receive the NSP grant from HUD.

8. Certifications

Certifications for State and Entitlement Communities

(1) **Affirmatively furthering fair housing**. The jurisdiction certifies that it will affirmatively further fair housing, which means that it will conduct an analysis to identify impediments to fair housing choice within the jurisdiction, take appropriate actions to overcome the effects of any impediments identified through that analysis, and maintain records reflecting the analysis and actions in this regard.

(2) **Anti-displacement and relocation plan.** The applicant certifies that it has in effect and is following a residential anti-displacement and relocation assistance plan.

(3) **Anti-lobbying.** The jurisdiction must submit a certification with regard to compliance with restrictions on lobbying required by 24 CFR part 87, together with disclosure forms, if required by that part.

(4) **Authority of jurisdiction.** The jurisdiction certifies that the consolidated plan or abbreviated plan, as applicable, is authorized under state and local law (as applicable) and that the jurisdiction possesses the legal authority to carry out the programs for which it is seeking funding, in accordance with applicable HUD regulations and other program requirements.

(5) **Consistency with plan.** The jurisdiction certifies that the housing activities to be undertaken with NSP funds are consistent with its consolidated plan or abbreviated plan, as applicable.
(6) **Acquisition and relocation.** The jurisdiction certifies that it will comply with the acquisition and relocation requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (42 U.S.C. 4601), and implementing regulations at 49 CFR part 24, except as those provisions are modified by the notice for the NSP program published by HUD.

(7) **Section 3.** The jurisdiction certifies that it will comply with section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u), and implementing regulations at 24 CFR part 135.

(8) **Citizen participation.** The jurisdiction certifies that it is in full compliance and following a detailed citizen participation plan that satisfies the requirements of Sections 24 CFR 91.105 or 91.115, as modified by NSP requirements.

(9) **Following a plan.** The jurisdiction certifies it is following a current consolidated plan (or Comprehensive Housing Affordability Strategy) that has been approved by HUD. [Only States and entitlement jurisdictions use this certification.]

(10) **Use of funds.** The jurisdiction certifies that it will comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act and Title XII of Division A of the American Recovery and Reinvestment Act of 2009 by spending 50 percent of its grant funds within 2 years, and spending 100 percent within 3 years, of receipt of the grant.

(11) **The jurisdiction certifies:**

a. that all of the NSP funds made available to it will be used with respect to individuals and families whose incomes do not exceed 120 percent of area median income; and

b. The jurisdiction will not attempt to recover any capital costs of public improvements assisted with CDBG funds, including Section 108 loan guaranteed funds, by assessing any amount against properties owned and occupied by persons of low- and moderate-income, including any fee charged or assessment made as a condition of obtaining access to such public improvements. However, if NSP funds are used to pay the proportion of a fee or assessment attributable to the capital costs of public improvements (assisted in part with NSP funds) financed from other revenue sources, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than CDBG funds. In addition, with respect to properties owned and occupied by moderate-income (but not low-income) families, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than NSP funds if the jurisdiction certifies that it lacks NSP or CDBG funds to cover the assessment.

(12) **Excessive force.** The jurisdiction certifies that it has adopted and is enforcing:

a. A policy prohibiting the use of excessive force by law enforcement agencies within its jurisdiction against any individuals engaged in nonviolent civil rights demonstrations; and

b. A policy of enforcing applicable state and local laws against physically barring entrance to, or exit from, a facility or location that is the subject of such nonviolent civil rights demonstrations within its jurisdiction.

(13) **Compliance with anti-discrimination laws.** The jurisdiction certifies that the NSP grant will be conducted and administered in conformity with Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), the Fair Housing Act (42 U.S.C. 3601-3619), and implementing regulations.

(14) **Compliance with lead-based paint procedures.** The jurisdiction certifies that its activities concerning lead-based paint will comply with the requirements of part 35, subparts A, B, J, K, and R of this title.

(15) **Compliance with laws.** The jurisdiction certifies that it will comply with applicable laws.

(16) **Vicinity hiring.** The jurisdiction certifies that it will, to the maximum extent feasible, provide for hiring of employees that reside in the vicinity of NSP3 funded projects or contract with small businesses that are owned and operated by persons residing in the vicinity of NSP3 projects.

(17) **Development of affordable rental housing.** The jurisdiction certifies that it will be abide by the procedures described in its NSP3 Abbreviated Plan to create preferences for the development of affordable rental housing for properties assisted with NSP3 funds.

__________________________________ ______________

Signature/Authorized Official Date

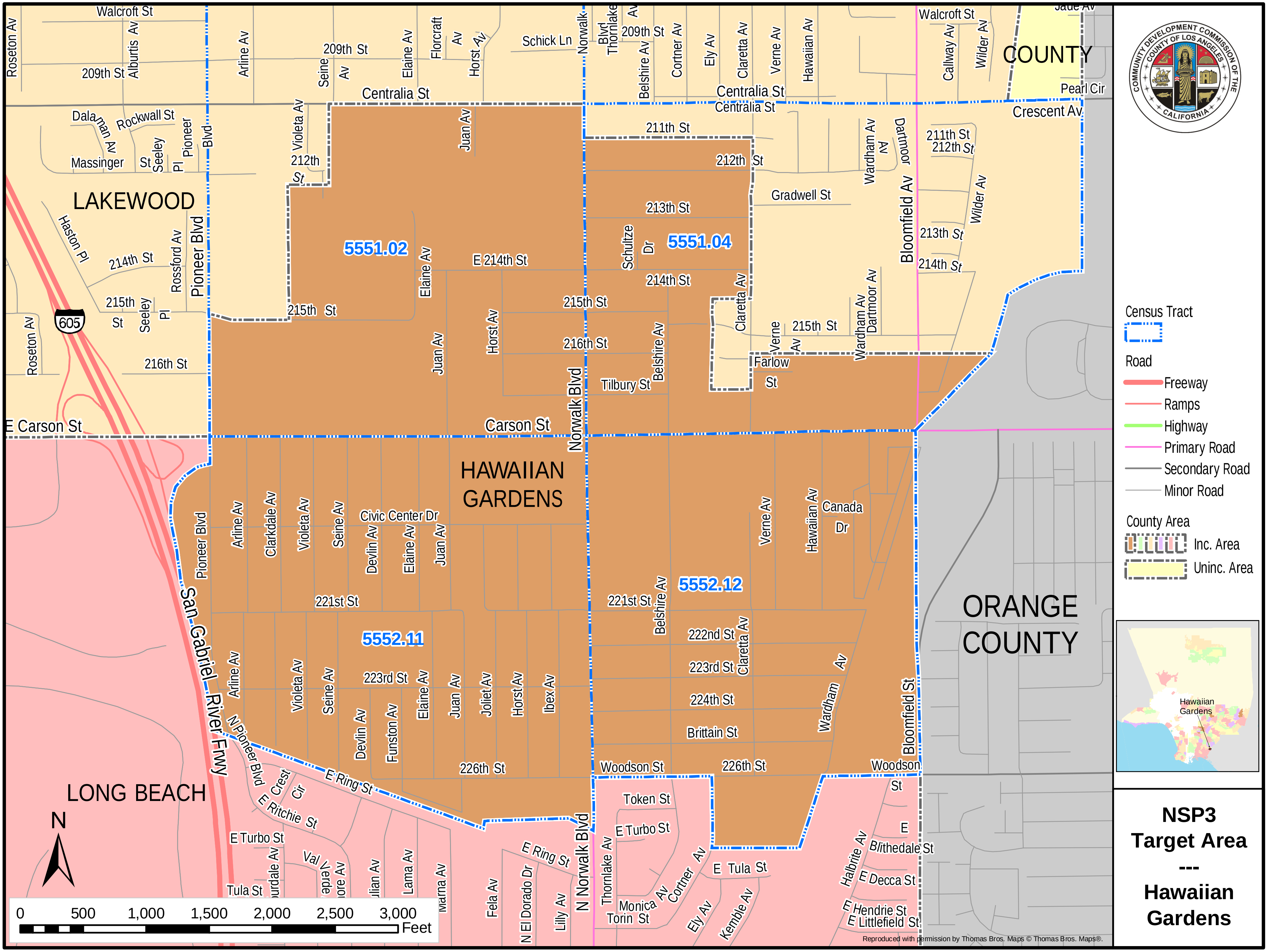
____

Title

APPENDIX A

COUNTY OF LOS ANGELES

NSP3 TARGET AREA MAPS



NSP3 Target Area

Hawaiian Gardens

File: J:\CDC Projects\CDBG\NSP3 Target Area - Hawaiian Gardens.mxd
Printing Date: Tuesday, December 21, 2010
Prepared By: Michael Chong

Map of Hawaiian Gardens with Foreclosure Need Score for NSP3, according to HUD, as of 2010.

Foreclosure Need Score for NSP3, according to HUD, as of 2010.

Tract Foreclosure Need Score for NSP3, according to HUD, as of 2010. The Need Score identifies communities with high numbers of foreclosed and/or vacant homes within the neighborhoods with the highest concentrations of foreclosures, delinquent loans, and subprime loans. Each tract receives a score from 1 to 20, with a higher number indicating greater need. If more than one neighborhood/tract is selected for NSP targeting, HUD will average these scores weighted by number of housing units. Housing Unit Count is available on PolicyMap to make these calculations. For more information please see the data directory. Grey shading in the map indicates that the data released by HUD did not include these areas.

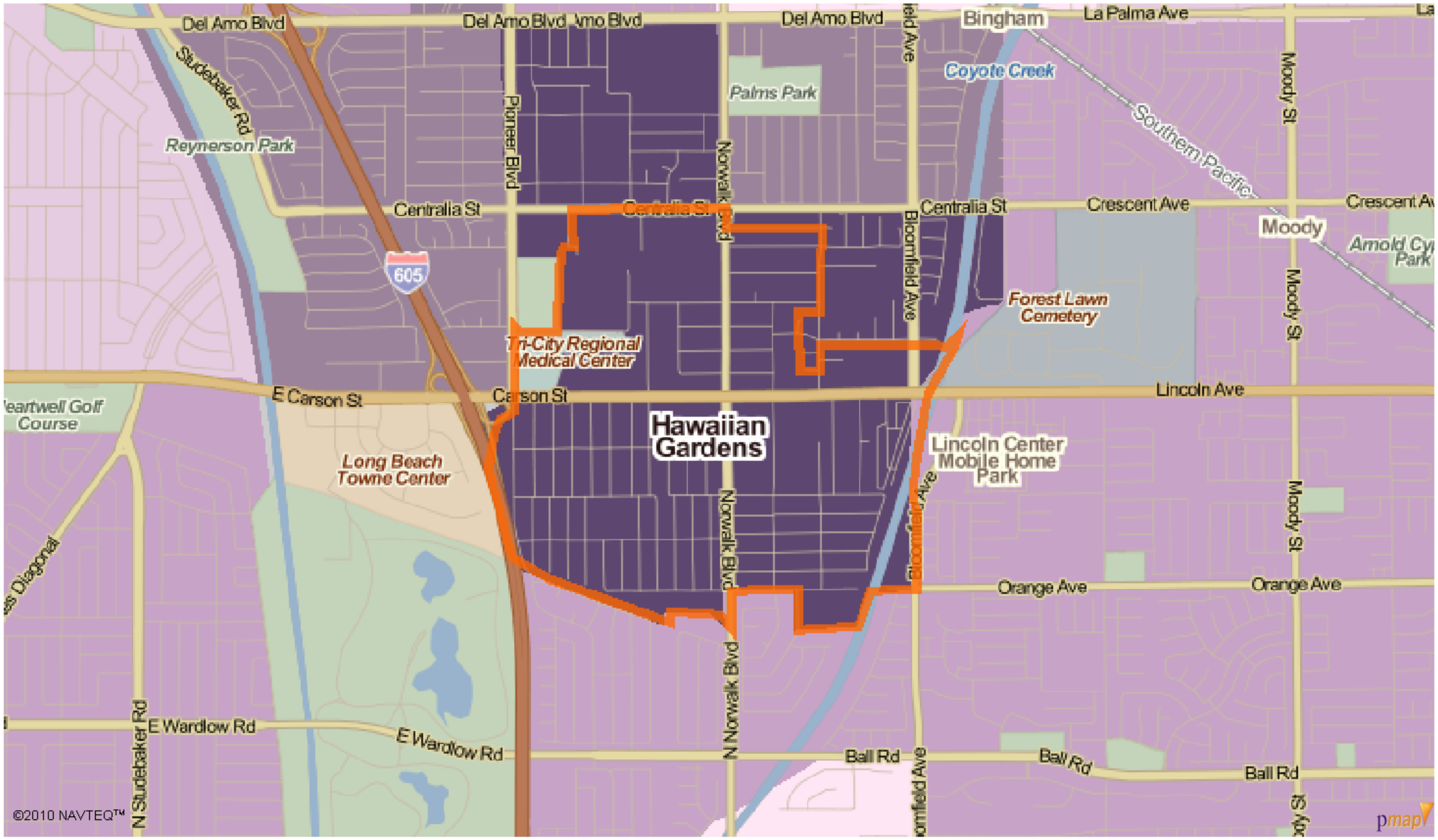
Legend

Year
2010

Variable
Score

- Insufficient Data
- 4 or less
- 5 - 8
- 9 - 12
- 13 - 16
- 17 or more

Shaded by: Census Tract
Source: HUD



Map of Hawaiian Gardens with Housing foreclosure rate distress indicator, according to the CDFI Fund, for FY 2011.

Housing foreclosure rate distress indicator, according to the CDFI Fund, for FY 2011.

The housing foreclosure rate is one of five "Distress Indicators" selected by the CDFI Fund to establish a Priority Points score for the FY 2011 application round. Priority Points correspond to a level of distress assigned to each county, ranging from least distressed (0) to most distressed (5). The housing foreclosure rate comes from HUD's Neighborhood Stabilization Program (NSP) data. For additional information please see the Data Directory. Areas where data is unavailable or not provided are colored in grey on the map.

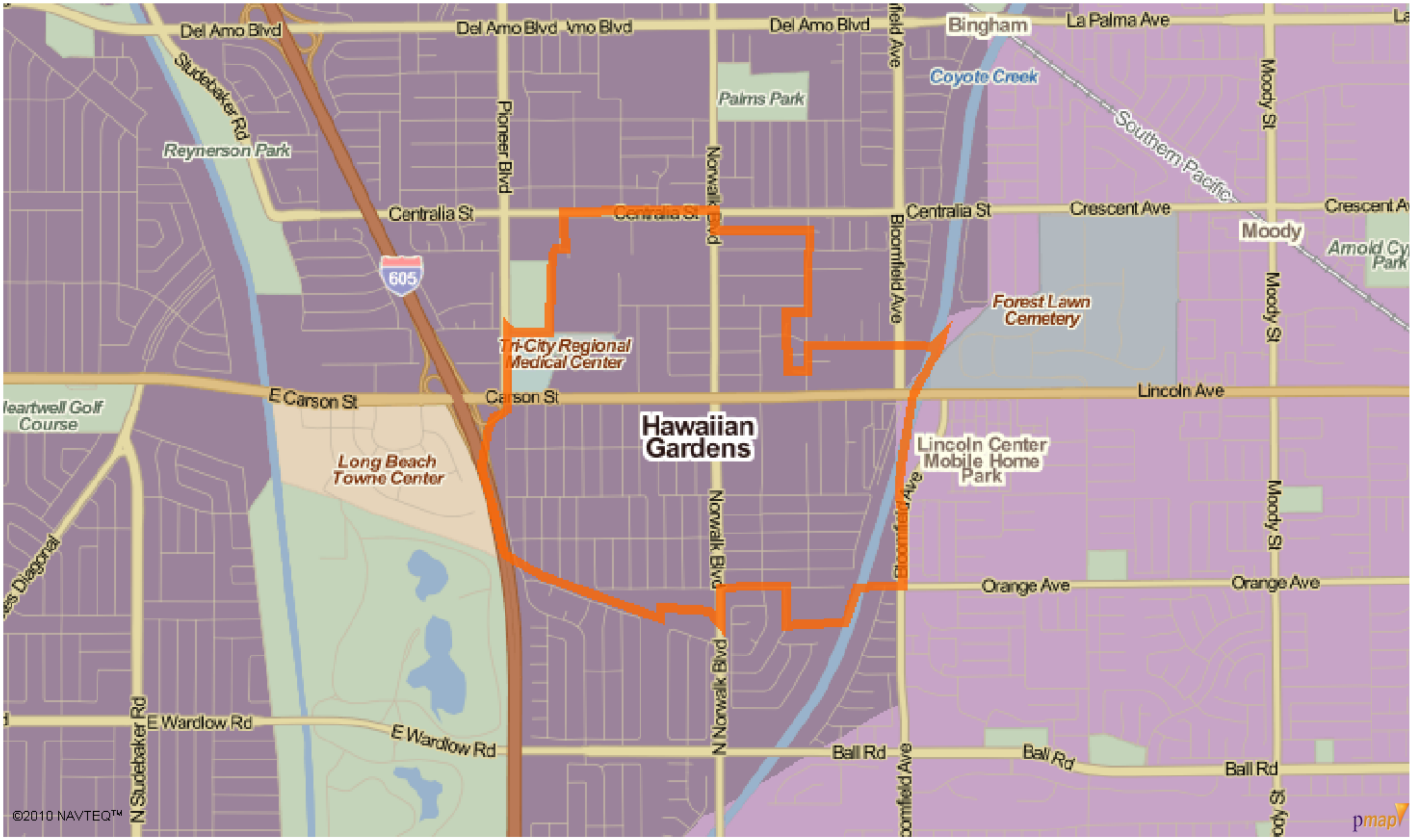
Legend

Year
2011

Variable
%

- Insufficient Data
- 3.1% or less
- 3.2% - 4.2%
- 4.3% - 5.3%
- 5.4% - 6.6%
- 6.7% or more

Shaded by: County
Source: CDFI Fund



Map of Hawaiian Gardens with Unemployment rate distress indicator, according to the CDFI Fund, for FY 2011.

Unemployment rate distress indicator, according to the CDFI Fund, for FY 2011.

Unemployment rate is one of five "Distress Indicators" selected by the CDFI Fund to establish a Priority Points score for the FY 2011 application round. Priority Points correspond to a level of distress assigned to each county, ranging from least distressed (0) to most distressed (5). The unemployment rate comes from the Bureau of Labor Statistics (BLS) in June 2008, and may differ slightly from more recently updated PolicyMap unemployment data due to constant revision and correction by the BLS. For additional information please see the Data Directory. Areas where data is unavailable are colored in grey on the map.

Legend

Year

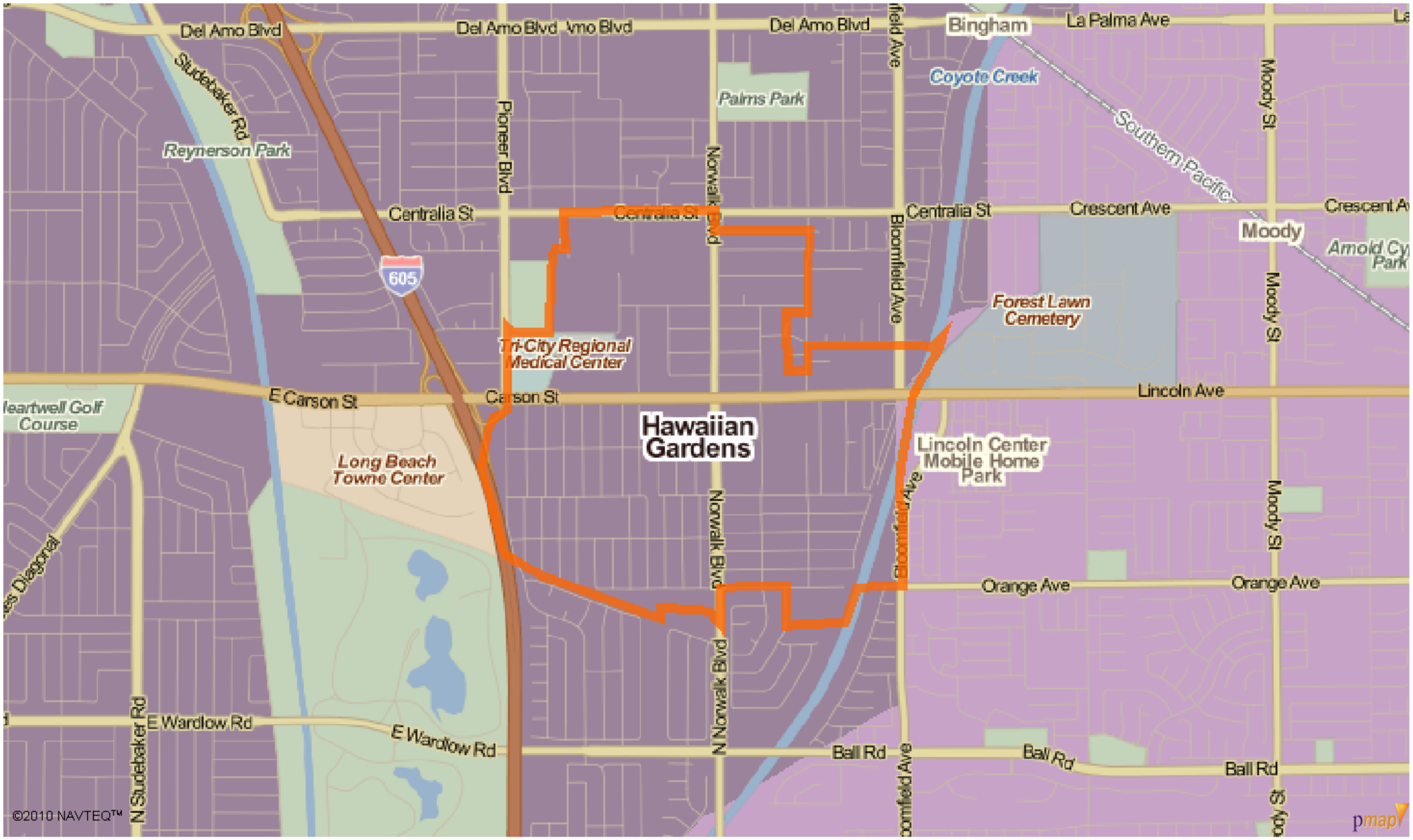
2011

Variable

%

- Insufficient Data
- 4.0% or less
- 4.1% - 5.1%
- 5.2% - 6.0%
- 6.1% - 7.3%
- 7.4% or more

Shaded by: County
Source: CDFI Fund



APPENDIX B

HAWAIIAN GARDENS

NSP3 HUD REPORT

Neighborhood ID: 1562225

NSP3 Planning Data

Grantee ID: 0603700C,0620880E
Grantee State: CA
Grantee Name: LOS ANGELES COUNTY,LONG BEACH
Grantee Address: 2 Coral Circle Monterey Park CA 91755
Grantee Email: rwebster@lacdc.org

Neighborhood Name: Hawaiian Gardens city
Date:2010-11-15 00:00:00

NSP3 Score
The neighborhoods identified by the NSP3 grantee as being the areas of greatest need must have an individual or average combined index score for the grantee's identified target geography that is not less than the lesser of 17 or the twentieth percentile most needy score in an individual state. For example, if a state's twentieth percentile most needy census tract is 18, the requirement will be a minimum need of 17. If, however, a state's twentieth percentile most needy census tract is 15, the requirement will be a minimum need of 15. If more than one neighborhood is identified in the Action Plan, HUD will average the Neighborhood Scores, weighting the scores by the estimated number of housing units in each identified neighborhood.

Neighborhood NSP3 Score: 17.19
State Minimum Threshold NSP3 Score: 17
Total Housing Units in Neighborhood: 5954

Area Benefit Eligibility
Percent Persons Less than 120% AMI: 73.17
Percent Persons Less than 80% AMI: 50.02

Neighborhood Attributes (Estimates)

Vacancy Estimate
USPS data on addresses not receiving mail in the last 90 days or "NoStat" can be a useful measure of whether or not a target area has a serious vacancy problem. For urban neighborhoods, HUD has found that neighborhoods with a very high number vacant addresses relative to the total addresses in an area to be a very good indicator of a current for potentially serious blight problem.

The USPS "NoStat" indicator can mean different things. In rural areas, it is an indicator of vacancy. However, it can also be an address that has been issued but not ever used, it can indicate units under development, and it can be a very distressed property (most of the still flood damaged properties in New Orleans are NoStat). When using this variable, users need to understand the target area identified.

In addition, the housing unit counts HUD gets from the US Census indicated above are usually close to the residential address counts from the USPS below. However, if the Census and USPS counts are substantially different for your identified target area, users are advised to use the information below with caution. For example if there are many NoStats in an area for units never built, the USPS residential address count may be larger than the Census number; if the area is a rural area largely served by PO boxes it may have fewer addresses than housing units.

USPS Residential Addresses in Neighborhood: 5866
Residential Addresses Vacant 90 or more days (USPS, March 2010): 78
Residential Addresses NoStat (USPS, March 2010): 23

Foreclosure Estimates
HUD has developed a model for predicting where foreclosures are likely. That model estimates serious delinquency rates using data on the leading causes of foreclosures - subprime loans (HMDA Census Tract data on high cost and highly leveraged loans), increasing unemployment (BLS data on unemployment rate change), and fall in home values (FHFA data on house price change). The predicted serious delinquency rate is then used to apportion the state total counts of foreclosure starts (from the Mortgage Bankers Association) and REOs (from RealtyTrac) to individual block groups.

Total Housing Units to receive a mortgage between 2004 and 2007: 2971
Percent of Housing Units with a high cost mortgage between 2004 and 2007: 27.68
Percent of Housing Units 90 or more days delinquent or in foreclosure: 15.19
Number of Foreclosure Starts in past year: 219
Number of Housing Units Real Estate Owned July 2009 to June 2010: 123

HUD is encouraging grantees to have small enough target areas for NSP 3 such that their dollars will have a visible impact on the neighborhood. Nationwide there have been over 1.9 million foreclosure completions in the past two years. NSP 1, 2, and 3 combined are estimated to only be able to address 100,000 to 120,000 foreclosures. To stabilize a neighborhood requires focused investment.

Estimated number of properties needed to make an impact in identified target area (20% of REO in past year): 45

<u>Supporting Data</u>
Metropolitan Area (or non-metropolitan area balance) percent fall in home value since peak value (Federal Housing Finance Agency Home Price Index through June 2010): -29.2
Place (if place over 20,000) or county unemployment rate June 2005*: 4.5
Place (if place over 20,000) or county unemployment rate June 2010*: 10.56
*Bureau of Labor Statistics Local Area Unemployment Statistics

<u>Market Analysis:</u>

HUD is providing the data above as a tool for both neighborhood targeting and to help inform the strategy development. Some things to consider:

1. Persistent Unemployment. Is this an area with persistently high unemployment? Serious consideration should be given to a rental strategy rather than a homeownership strategy.

2. Home Value Change and Vacancy. Is this an area where foreclosures are largely due to a combination of falling home values, a recent spike in unemployment, and a relatively low vacancy rate? A down payment assistance program may be an effective strategy.

3. Persistently High Vacancy. Are there a high number of substandard vacant addresses in the target area of a community with persistently high unemployment? A demolition/land bank strategy with selected acquisition rehab for rental or lease-purchase might be considered.

4. Historically low vacancy that is now rising. A targeted strategy of acquisition for homeownership and rental to retain or regain neighborhood stability might be considered.

5. Historically high cost rental market. Does this market historically have very high rents with low vacancies? A strategy of acquiring properties and developing them as long-term affordable rental might be considered.

<u>Latitude and Longitude of corner points</u>

-118.082514 33.845826 -118.082256 33.831353 -118.083630 33.828644 -118.082085 33.824651 -118.074789 33.822512 -118.074961 33.823082 -118.072557 33.823082 -118.072042 33.823795 -118.068695 33.823938 -118.068953 33.822512 -118.066034 33.822583 -118.065691 33.823938 -118.063631 33.823938 -118.063459 33.831496 -118.059511 33.835417 -118.059597 33.838911 -118.072214 33.838697 -118.072729 33.846039 -118.083115 33.846182

Blocks Comprising Target Neighborhood

060375551022000, 060375551022007, 060375551022008, 060375551022009, 060375551022011, 060375551022010, 060375551022006, 060375551022005, 060375551042000, 060375551042999, 060375551042011, 060375551042010, 060375551042009, 060375551042003, 060375551042004, 060375551042006, 060375551042008, 060375551042007, 060375551042002, 060375551042001, 060375552111000, 060375552111005, 060375552111007, 060375552111009, 060375552111011, 060375552111018, 060375552111017, 060375552111016, 060375552111015, 060375552111014, 060375552111013, 060375552111012, 060375552111010, 060375552111008, 060375552111006, 060375552111004, 060375552111001, 060375552111003, 060375552111002, 060375552112000, 060375552112002, 060375552112004, 060375552112003, 060375552112001, 060375552113000, 060375552113005, 060375552113007, 060375552113009, 060375552113011, 060375552113017, 060375552113016, 060375552113015, 060375552113014, 060375552113013, 060375552113012, 060375552113010, 060375552113008, 060375552113006, 060375552113004, 060375552113001, 060375552113003, 060375552113002, 060375552121000, 060375552121007, 060375552121009, 060375552121018, 060375552121017, 060375552121016, 060375552121015, 060375552121014, 060375552121013, 060375552121012, 060375552121011, 060375552121010, 060375552121999, 060375552121020, 060375552121019, 060375552121008, 060375552121006, 060375552121002, 060375552121003, 060375552121005, 060375552121004, 060375552121001, 060375551021000, 060375551021001, 060375551021004, 060375551021003, 060375551021002, 060375551021005, 060375551021007, 060375551021009, 060375551021018, 060375551021017, 060375551021016, 060375551021015, 060375551021014, 060375551021013, 060375551021012, 060375551021011, 060375551021010, 060375551021008, 060375551021006, 060375551022001, 060375551022002, 060375551022003, 060375551022004, 060375551022013, 060375551022012, 060375551041000, 060375551041001, 060375551041002, 060375551041003, 060375551041005, 060375551041007, 060375551041999, 060375551041015, 060375551041014, 060375551041013, 060375551041012, 060375551041011, 060375551041010, 060375551041009, 060375551041008, 060375551041006, 060375551041004, 060375551042005, 060375552022001,

APPENDIX C

PUBLIC NOTICE &

LIST OF PUBLICATIONS

PUBLIC NOTICE

NEIGHBORHOOD STABLIZATION PROGRAM
AMENDMENT TO THE FISCAL YEAR (FY) 2010-2011 ONE-YEAR ACTION PLAN FOR THE LOS ANGELES URBAN COUNTY

The amendment to the FY 2010-2011 One-Year Action Plan for the Los Angeles Urban County is to enable the County of Los Angeles (County) to receive and administer funds from the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program (NSP) through the Community Development Block Grant (CDBG) Program under the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). This is a third round of NSP funding made available by United States Congress and is referred to as NSP3. NSP3 funding will assist the County to redevelop abandoned and foreclosed homes in select target areas within Los Angeles County.

The amended document will be available during a 15-day public review and comment period from January 3, 2011 through January 18, 2011 on the Community Development Commission (CDC) website at: http://www3.lacdc.org/CDCWebsite/CDBG/PlansReports.aspx?id=2520. Hard copies of the amended document will also be available for review at the CDC main office at 2 Coral Circle, Monterey Park, CA 91755.

Citizens wishing to submit written comments during the public review and comment period may mail them, postmarked **no later than January 18, 2011**, to the CDC, to the attention of Raymond Webster, CDBG Division, who can be reached at (323) 890-7317, if there are any questions.

Publications for the Public Notice for the Amendment to the FY 2010-11 Action Plan

PUBLICATION	DISTRICTS	NEWSPAPER
Daily	**1,2,3,4,5**	**Los Angeles Times**
Daily	**1,2,3,4,5**	**La Opinion** (in Spanish)
Daily	**2**	**Korea Times** (in Korean)
Daily	**1,4**	**Chinese Daily Journal** (in Chinese)
Weekly	**2,3**	**Panorama** (in Russian)

APPENDIX D

PUBLIC COMMENTS

PUBLIC COMMENTS

This application is an amendment to the FY 2010-2011 One-Year Action Plan for the Los Angeles Urban County to enable the County of Los Angeles to receive and administer NSP3 funding.

The amended document will be available during a 15-day public review and comment period from January 3, 2011 through January 18, 2011 on the Community Development Commission (CDC) website at: http://www3.lacdc.org/CDCWebsite/CDBG/PlansReports.aspx?id=2520. Hard copies of the amended document will also be available for review at the CDC main office at 2 Coral Circle, Monterey Park, CA 91755.

Citizens wishing to submit written comments during the public review and comment period may mail them, postmarked **no later than January 18, 2011**, to the CDC, to the attention of Raymond Webster, CDBG Division, who can be reached at (323) 890-7317, if there are any questions.

Comments

Any comments and responses will be provided in the final application submitted to HUD.

APPENDIX E

NSP3 ACTION PLAN CONTENTS CHECKLIST

Appendix E: NSP3 Action Plan Contents Checklist

The checklist below is an optional tool for NSP3 grantees to help to ensure that all required elements of the NSP3 Substantial Amendment or the Abbreviated Plan are submitted to HUD. This checklist only includes the minimum required elements that must be included in the NSP3 Action Plan and grantees may want to add additional details. This document must be protected, as described above, in order to use the checkboxes in this checklist.

1. NSP3 Grantee Information

	Yes
Did you include the Program Administrator's name, address, phone, and email address?	☒

2. Areas of Greatest Need

	Yes
Does the narrative description describe how funds will give priority emphasis to areas of greatest need?	☒
Does the narrative description specifically address how the funds will give priority emphasis to those areas:	
• **With the highest percentage of home foreclosures?**	☒
• **With the highest percentage of homes financed by subprime mortgage related loan?; and**	☒
• **Identified by the grantee as likely to face a significant rise in the rate of home foreclosures?**	☒
Did you create the area of greatest needs map at http://www.huduser.org/NSP/NSP3.html?	☒
Did you include the map as an attachment to your Action Plan?	☒
ONLY Applicable for States: **Did you include the needs of all entitlement communities in the State? N/A**	☐

3. Definitions and Descriptions

	Yes
Are the following definitions and topics included in your substantial amendment?:	
• **Blighted structure in context of state or local law,**	☒

• Affordable rents,	☒
• Ensuring long term affordability for all NSP funded housing projects,	☒
• Applicable housing rehabilitation standards for NSP funded projects	☒

4. Low-Income Targeting

	Yes
Did you identify the estimated amount of funds appropriated to provide housing that meets the low-income set aside target?	☒
Did you provide a summary describing how your jurisdiction will meet its low-income set aside goals?	☒

5. Acquisition & Relocation – N/A

	Yes
For all acquisitions that will result in displacement did you specify:	
• The planned activity,	☐
• The number of units that will result in displacement,	☐
• The manner in which the grantee will comply with URA for those residents?	☐

6. Public Comment – To be attached

	Yes
Did you provide your draft of the NSP3 substantial amendment for a minimum of 15 days for public comment?	☒
Did you include the public comments you received on the NSP3 substantial amendment in your plan?	☒

7. NSP Information by Activity

	Check all that apply
Did you include a description of all eligible NSP3 activities you plan to implement with your NSP3 award?	☒
For each eligible NSP3 activity you plan to implement did you include:	

• Eligible use or uses?	☒
• Correlated eligible CDBG activity or activities?	☒
• Associated national objective?	☒
• How the activity will address local market conditions?	☒
• Range of interest rates (if any)?	☒
• Duration or term of assistance?	☒
• Tenure of beneficiaries (e.g. rental or homeowner)?	☒
• If the activity produces housing, how the design of the activity will ensure continued affordability?	☒
• How you will, to the maximum extent possible, provide for vicinity hiring?	☒
• Procedures used to create affordable rental housing preferences?	☒
• Areas of greatest need addressed by the activity or activities?	☒
• Amount of funds budgeted for the activity?	☒
• Appropriate performance measures for the activity (e.g. units of housing to be acquired, rehabilitated, or demolished for the income levels represented in DRGR) ?	☒
• Expected start and end dates of the activity?	☒
• Name and location of the entity that will carry out the activity?	☒

8. Certifications – To be signed for the final submission to HUD

	Yes
Did you sign and submit the certification form applicable to your jurisdiction?	☒

9. Additional Documentation – To be signed for the final submission to HUD

	Yes
Did you include a signed SF-424?	☒

APPENDIX F

HUD NSP3 NOTICE

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-5447-N-01]

Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants

AGENCY: Office of the Secretary, HUD.

ACTION: Notice of allocation method, waivers granted, alternative requirements applied, and statutory program requirements.

SUMMARY: This notice advises the public of the allocation formula and allocation amounts, the list of grantees, alternative requirements, and the waivers of regulations granted to grantees under Section 2301(b) of the Housing and Economic Recovery Act of 2008 (Pub. L 110-289, approved July 30, 2008) (HERA), as amended, and an additional allocation of funds provided under Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010 (Pub. L. 111-203, approved July 21, 2010) (Dodd-Frank Act) for additional assistance in accordance with the second undesignated paragraph under the heading 'Community Planning and Development—Community Development Fund' in Title XII of Division A of the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5, approved February 17, 2009) (Recovery Act), as amended, for the purpose of assisting in the redevelopment of abandoned and foreclosed homes. Except where provided for otherwise, these amounts are distributed based on funding formulas for such amounts established by the Secretary in accordance with HERA.

The additional allocation represents the third round of Neighborhood Stabilization Program funding and is referred to throughout this notice as NSP3. HERA provided a first round of formula funding to States and units of general local government, and is referred to herein as NSP1. The Recovery Act provided a second round of funds awarded by competition and is

referred to herein as NSP2. The three rounds of funding are collectively referred to as NSP. As described in the Supplementary Information section of this notice, HUD is authorized by statute to specify alternative requirements and make regulatory waivers for this purpose. This notice also notes statutory issues affecting program design and implementation.

Note: This notice is intended to provide unified program requirements for grantees of the two formula NSP grant programs, NSP1 and NSP3. The allocation and application information under Section I.A and Section II.B below is only applicable to NSP3 grants. For NSP1, HUD awarded grants to a total of 309 grantees including the 55 states and territories and selected local governments to stabilize communities hardest hit by foreclosures and delinquencies. For the allocation formula and application process for NSP1, please see the October 6, 2008 Federal Register Notice (73 FR 58330), as amended by the June 19, 2009 “Bridge” Notice (74 FR 29223), and Appendix A attached hereto. For NSP2, HUD awarded a combined total $1.93 billion in NSP2 grants to 56 grantees nationwide on January 14, 2010. Funds under NSP2 were distributed by competition under criteria described in the May 4, 2009 Notice of Funding Availability. Where requirements differ between the rounds of funding, it is so noted.

DATES: <u>Effective Date</u>: **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].**

FOR FURTHER INFORMATION CONTACT: Stanley Gimont, Director, Office of Block Grant Assistance, Department of Housing and Urban Development, 451 Seventh Street, SW, Room 7286, Washington, DC 20410, telephone number 202-708-3587. Persons with hearing or speech impairments may access this number via TTY by calling the Federal Information Relay Service at 800-877-8339. FAX inquiries may be sent to Mr. Gimont at 202-401-2044. (Except for the "800" number, these telephone numbers are not toll-free.)

SUPPLEMENTARY INFORMATION:

Program background and purpose

Recipients will use the funds awarded under this notice to stabilize neighborhoods whose viability has been, and continues to be, damaged by the economic effects of properties that have been foreclosed upon and abandoned. In 2008, Congress appropriated funds for neighborhood stabilization under HERA. In 2009, Congress appropriated additional neighborhood stabilization funds under the Recovery Act. In 2010, Congress appropriated a third round of neighborhood stabilization funds in the Dodd-Frank Act.

When referring to a provision of the first appropriations statute, this notice will refer to HERA; when referring to a provision of the second appropriations statute, this notice will refer to the Recovery Act; and when referring to the third appropriations statute this notice will refer to the Dodd-Frank Act. When referring to the grants, grantees, assisted activities, and implementation rules under the Dodd-Frank Act, this notice will use the term “NSP3.” When referring to the grants, grantees, assisted activities, and implementation rules under the Recovery Act, this notice will use the term “NSP2”. When referring to the grants, grantees, assisted activities, and implementation rules under HERA, this notice will use the term “NSP1.” Collectively, the grants, grantees, assisted activities, and implementation rules under these three rounds of funding is referred to as NSP. NSP is a component of the Community Development Block Grant (CDBG) program (authorized under Housing and Community Development Act of 1974, as amended (42 U.S.C. 5301 et seq.) (HCD Act)).

Program principles

Programs under NSP should aim to integrate the following principles:

- Retain CDBG distinctive requirements. Congress gave HUD broad waiver and alternative requirement authority, which HUD used in designing NSP program requirements. However, distinctive characteristics of the CDBG program including the objectives of the HCD Act, financial accountability, local citizen participation and information, grantee selection of activities within broad federal policy parameters, and income targeting of beneficiaries were retained. All of these elements are required in NSP1, NSP2, and NSP3.

- Target and reconnect neighborhoods. Invest funds in programs and projects that will revitalize targeted neighborhood(s) and reconnect those targeted neighborhoods with the economy, housing market, and social networks of the community and metropolitan area as a whole.
- Rapidly arrest decline. Support NSP uses and activities that will rapidly arrest the decline of a targeted neighborhood(s) that has been negatively affected by abandoned or foreclosed properties.
- Assure compliance with the NSP "deep targeting" requirement. No less than 25 percent of the funds shall be used to house individuals and families whose incomes do not exceed 50 percent of area median income.
- Ensure longest feasible continued affordability. Invest in affordable housing that will remain desirable and affordable for the longest feasible period.
- Support projects that optimize economic activity, and the number of jobs created or retained or that will provide other long-term economic benefits.
- Build inclusive and sustainable communities free from discrimination.
- Coordinate planning and resources. Integrate neighborhood stabilization programs with other Federal policy priorities and investments, including energy conservation

and efficiency, sustainable and transit-oriented development, integrated metropolitan area-wide planning and coordination, improvements in public education, and access to healthcare.

- Leverage resources and remove destabilizing influences. Augment neighborhood stabilization programs with other federal, public and private resources. Eliminate destabilizing influences, such as blighted homes, that can prevent programs from producing results.
- Set goals. Set aggressive, but achievable, goals for outputs and outcomes.
- Ensure accountability. Ensure accountability for all programs, keep citizens actively informed, and provide all required NSP reporting elements.

Objectives and Outcomes

1. Objectives. The primary objective of the CDBG program is the development of viable urban communities, by providing decent housing, a suitable living environment, and economic opportunity, principally for persons of low- and moderate-income. NSP grantees must strive to meet this objective in neighborhoods that are in decline (or further decline) due to the negative effects of a high number and percentage of homes that have been foreclosed upon. The first goal is to arrest the decline. Then the grantee must stabilize the neighborhood and position it for a sustainable role in a revitalized community.

2. Outcomes. Measurable NSP short term program outcomes may include, but are not limited to:

    - Arresting decline in home values based on average sales price in targeted neighborhoods, and
    - Reduction or elimination of vacant and abandoned residential property in targeted neighborhoods.

The long term outcomes may include, but are not limited to:

- increased sales of residential property in targeted neighborhoods, and
- increased median market values of real estate in targeted neighborhoods.

Authority to Provide Alternative Requirements and Grant Regulatory Waivers

The Dodd-Frank Act states that, except where provided for otherwise, assistance shall be provided in accordance with the same provisions applicable under the NSP2 authorization. In turn, the Recovery Act provides that assistance shall be made available as authorized under HERA. The Recovery Act authorizes the Secretary to specify waivers and alternative requirements for any provision of any statute or regulation in connection with the obligation by the Secretary or the use of funds except for requirements related to fair housing, nondiscrimination, labor standards, and the environment (including lead-based paint), upon a finding that such a waiver is necessary to expedite or facilitate the use of such funds.

The Secretary finds that the following alternative requirements are necessary to expedite the use of these funds for their required purposes.

Except as described in this notice, statutory and regulatory provisions governing the CDBG program, including those at 24 CFR part 570 subpart I for states, and those at 24 CFR part 570 subparts A, C, D, J, K, and O for CDBG entitlement communities, as appropriate, shall apply to the use of these funds. The State of Hawaii will be allocated funds and will be subject to part 570, subpart I, as modified by this notice. Other sections of the notice provide further details of the changes, the majority of which deal with adjustments necessitated by statutory provisions, simplify program rules to expedite administration, or relate to the ability of state grantees to act directly instead of solely through distribution to local governments. Additional guidance and technical assistance will be available at http://www.hud.gov/nspta.

Table of Contents

I. ALLOCATIONS

A. Formula: Allocation. Grants awarded under NSP1 were allocated to States and local governments according to the formula described in Attachment A. The Dodd-Frank Act makes available an additional $1 billion that is generally to be construed as CDBG program funds

(NSP3) for the communities and in the amounts listed in Attachment B to this notice.

B. **Formula: Reallocation**.

1.a. *Failure to Apply (NSP3).* To expedite the use of NSP3 funds, the Department is specifying alternative requirements to 42 U.S.C. 5306(c). If a unit of general local government receiving an allocation of NSP3 funds under this notice (as designated in Attachment B) fails to submit a substantially complete application for its grant allocation by March 1, 2011, or submits an application for less than the total allocation amount, HUD will notify the jurisdiction of the cancellation of all or part of its allocation amount and proceed to reallocate the funds to the state in which the jurisdiction is located.

b. If a state or insular area receiving an allocation of funds under this notice fails to submit a substantially complete application for its allocation by March 1, 2011, or submits an application for less than the total allocation amount, HUD will notify the state or insular area of the reduction in its allocation amount and proceed to reallocate the funds to the 10 highest-need states based on original rankings of need.

2.a. *Failure to Meet 18-Month Obligation Deadline (NSP1).* Consistent with the August 23, 2010 Notice of NSP Reallocation Process Changes (Docket No. FR-5435-N-01), HUD will block each grantee's ability to obligate NSP1 grant funds in the Disaster Recovery Grant Reporting System (DRGR) on the first business day after the statutory 18-month deadline for use of funds. HUD will notify the grantee of this action by electronic mail. Grantees will not be able to obligate grant funds after the deadline without requesting and receiving permission from HUD, and HUD determines that the grantee is not high risk consistent with this notice. The grantee will still be able to expend grant funds obligated before the deadline. Receipt and use of any program income will also be unaffected.

b. Grantees that fail to obligate an amount equal to or greater than its initial grant amount may submit information to HUD, for up to 30 days following its 18-month deadline, documenting any additional obligation of funds not already recorded in the DRGR system and demonstrating to HUD that the obligation occurred on or before the 18-month deadline. Before the 18-month deadline, each grantee should also review its recorded obligations and notify HUD within 30 days following the deadline of any necessary adjustments to the amount and the reason for such an adjustment. For example, the grantee has become aware that an obligation amount that was previously recorded for an acquisition will not proceed, therefore a downward adjustment is necessary.

c. After the deadline, if a grantee needs to decrease or increase the amount of grant funds obligated to an activity, it must first ask HUD to remove the DRGR block on changing the amount obligated. If the amount of decrease is more than 15 percent of the obligation for any activity, the grantee must submit to HUD a written request that clearly demonstrates with compelling information that factors beyond the grantee's reasonable control caused the need to adjust after the deadline. If HUD agrees to grant the request, it will restore the grantee's ability to obligate grant funds in DRGR. If HUD does not grant the request, the grantee must either complete the activity as originally obligated or the amount previously obligated for that activity will be recaptured. HUD may also remove the obligations block following risk assessment of the grantee or a review of some or all of a grantee's obligation documentation.

d. Before HUD determines the appropriate corrective action or recaptures grant funds, HUD will review the submitted information, consider the grantee's capacity as described in 24 CFR 570.905 and 24 CFR 570.493, and the grantee's continuing need for the funds.

e. Following the review and consistent with the procedures described in 24 CFR 570.900(b), HUD will proceed to notify the grantee of the selected corrective action it is required to undertake.

f. HUD will recapture and reallocate up to $19.6 million from any state grantee with unused NSP1 grant funds. Additional corrective actions may be taken related to any amount of unused funds greater than $19.6 million.

g. HUD will reallocate recaptured NSP1 grant funds in accordance with the reallocation formula described in a separate reallocation notice. A grantee receiving a reallocation must apply for the grant in accordance with the NSP1 Notice or this notice, as applicable. A nonentitlement grantee that is not required to submit a consolidated plan to HUD under the CDBG program will prepare an abbreviated plan. The substance of an abbreviated plan must include all the required elements that entitlement communities provide as part of an NSP Action Plan substantial amendment as described under Section II.B.2 of the NSP1 Notice or this Notice, as applicable.

h. Each grantee must meet the statutory requirement to expend 25 percent of its grant amount for activities that will provide housing for households whose income is at or under 50 percent of area median income. This cannot occur unless the funds are first obligated to activities for this purpose, or program income is received and used for eligible activities. Therefore, if a grantee fails to obligate or record program income use of at least 25 percent of its original grant amount for activities that will provide housing for households whose income is at or under 50 percent of area median income, HUD may issue a concern or a finding of noncompliance. Consistent with the procedures described in 24 CFR 570.900(b), HUD will require as a corrective action that the grantee either adjust its remaining NSP1 planned activities to ensure that 25 percent of the original NSP1 formula grant amount and program income supports activities providing housing to households with incomes at or under 50 percent of area median income, or make a firm commitment to provide such housing with nonfederal funds in an amount sufficient to offset any deficiency to comply with the requirement before the expenditure deadline for the NSP1 grant.

i. The NSP1 Notice allows each grantee to use up to 10 percent of its NSP1 grant for general administration and planning activities. If HUD recaptures funds from a grant, this percentage limitation will still apply to the remaining grant funds, reducing the amount available for administration activities.

3. *Failure to Meet Expenditure Deadline for NSP3.*

NSP3 grantees must expend 50 percent of their grants within 2 years and 100 percent of their grants within 3 years. HUD will recapture and reallocate the amount of funds not expended by those deadlines or provide for other corrective action(s) or sanction. Further guidance will be issued prior to the deadline.

II. ALTERNATIVE REQUIREMENTS AND REGULATORY WAIVERS

This section of the notice briefly provides a justification for alternative requirements, where additional explanation is necessary, and describes the necessary basis for each regulatory waiver. This section also highlights some of the statutory requirements applicable to the grants. This background narrative is followed by the NSP requirements. While program requirements across the three rounds of NSP funding are similar, certain requirements differ in accordance to statutory provisions.

Each grantee eligible for an NSP grant that already receives annual CDBG allocations has carried out needs hearings, has a consolidated plan, an annual action plan, a citizen participation plan, a monitoring plan, an analysis of impediments to fair housing choice, and has made CDBG certifications. The consolidated plan already discusses housing needs related to up to four major grant programs: CDBG, HOME, Emergency Shelter Grants (ESG), and Housing

Opportunities for Persons with AIDS (HOPWA). A grantee's annual action plan describes the activities budgeted under each of those annual programs.

HUD is treating state and entitlement grantees' use of its NSP grant to be a substantial amendment to its current approved consolidated plan and 2010 annual action plan. The NSP grant is a special CDBG allocation to address the problem of abandoned and foreclosed homes. Treating NSP3 as a substantial amendment will expedite the distribution of NSP3 funds, while ensuring citizen participation on the specific use of the funds. HUD is waiving the consolidated plan regulations on the certification of consistency with the consolidated plan to the extent necessary to mean NSP funds will be used to meet the congressionally identified needs of abandoned and foreclosed homes in the targeted areas set forth in the grantee's substantial amendment. In addition, HUD is waiving the consolidated plan regulations to the extent necessary to adjust reporting to fit the requirements of HERA and the use of DRGR.

Non-entitlement local government grantees receiving NSP3 funds that are not required to submit a consolidated plan to HUD under the CDBG program will prepare an abbreviated plan. The substance of an abbreviated plan must include all the required elements that entitlement communities provide as part of an NSP Action Plan substantial amendment as described under Section II.B.2.

The waivers, alternative requirements, and statutory changes apply only to the grant funds appropriated under NSP and not to the use of regular formula allocations of CDBG, even if they are used in conjunction with NSP funds for a project. They provide expedited program implementation and implement statutory requirements unique to the covered NSP appropriations.

A. Definitions for purposes of the Neighborhood Stabilization Program

Background

Certain terms are used in HERA that are not used in the regular CDBG program, or the terms are used differently in HERA and the HCD Act. In the interest of clarity of administration, HUD is defining these terms in this notice for all grantees, including states. For the same reason, HUD is also defining eligible fund uses for all grantees, including states. States may define other program terms under the authority of 24 CFR 570.481(a), and will be given maximum feasible deference in accordance with 24 CFR 570.480(c) in matters related to the administration of their NSP programs.

Requirement

Abandoned. A home or residential property is abandoned if either a) mortgage, tribal leasehold, or tax payments are at least 90 days delinquent, or b) a code enforcement inspection has determined that the property is not habitable and the owner has taken no corrective actions within 90 days of notification of the deficiencies, or c) the property is subject to a court-ordered receivership or nuisance abatement related to abandonment pursuant to state or local law or otherwise meets a state definition of an abandoned home or residential property.

Blighted structure. A structure is blighted when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.

CDBG funds. CDBG funds means, in addition to the definition at 24 CFR 570.3, grant funds distributed under this notice.

Current market appraised value. The current market appraised value means the value of a foreclosed upon home or residential property that is established through an appraisal made in conformity with either: 1) the appraisal requirements of the URA at 49 CFR 24.103, or 2) the Uniform Standards of Professional Appraisal Practice (USPAP), or 3) the appraisal requirements of the Federal Housing Administration (FHA) or a government sponsored enterprise (GSE); and the appraisal must be completed or updated within 60 days of a final offer made for the property by a grantee, subrecipient, developer, or individual homebuyer. However, if the anticipated value of the proposed acquisition is estimated at $25,000 or less, the current market appraised value of the property may be established by a valuation of the property that is based on a review of available data and is made by a person the grantee determines is qualified to make the valuation.

Date of Notice of Foreclosure. For purposes of the NSP tenant protection provisions described at Section K, the date of notice of foreclosure shall be deemed to be the date on which complete title to a property is transferred to a successor entity or person as a result of an order of a court or pursuant to provisions in a mortgage, deed of trust, or security deed. If none of these events occur in the acquisition of a foreclosed property (e.g. in a short sale), in order to ensure fair and equitable treatment of bona fide tenants and consistency with the NSP definition of foreclosed, the date of notice of foreclosure shall be deemed to be the date on which the property is acquired for the NSP-assisted project. **NOTE:** This definition does not affect or otherwise alter the definition of “foreclosed” as provided in this notice.

Foreclosed. A home or residential property has been foreclosed upon if any of the following conditions apply: (a) the property’s current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified; (b) the property owner is 90 days or more delinquent on tax payments; (c) under state, local, or tribal law, foreclosure proceedings have been initiated or completed; or (d) foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, contractor, subrecipient, developer, or end user.

Land bank. A land bank is a governmental or nongovernmental nonprofit entity established, at least in part, to assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods and encouraging re-use or redevelopment of urban property. For the purposes of NSP, a land bank will operate in a specific, defined geographic area. It will purchase properties that have been foreclosed upon and maintain, assemble, facilitate redevelopment of, market, and dispose of the land-banked properties. If the land bank is a governmental entity, it may also maintain foreclosed property that it does not own, provided it charges the owner of the property the full cost of the service or places a lien on the property for the full cost of the service.

Subrecipient. Subrecipient shall have the same meaning as at the first sentence of 24 CFR 570.500(c). This includes any nonprofit organization (including a unit of general local government) that a state awards funds to.

Use (for the purposes of HERA section 2301(c)(1)). Funds are used when they are obligated by a state, unit of general local government, or any subrecipient thereof, for a specific NSP activity; for example, for acquisition of a specific property. Funds are obligated for an activity when orders are placed, contracts are awarded, services are received, and similar transactions have occurred that require payment by the state, unit of general local government, or subrecipient during the same or a future period. Note that funds are not obligated for an activity when subawards (e.g., grants to subrecipients or to units of local government) are made.

Vicinity. For the purposes of NSP3, HUD defines "vicinity" as each neighborhood identified by the NSP3 grantee as being the areas of greatest need.

B. NSP3 Pre-grant process

<u>Background</u>

With this notice, HUD is establishing the NSP3 allocation formula, including reallocation provisions, and announcing the distribution of funds. CDBG grantees receiving NSP3 allocations may immediately begin to prepare and submit action plan substantial amendments for NSP3 funds, in accordance with this notice. (Insular areas should follow the requirements for entitlement communities.) Non-entitlement local government grantees will follow entitlement requirements except for the submission of an abbreviated plan rather than a substantial amendment or as otherwise explained in this notice.

To receive NSP3 funding, each grantee listed in Attachment B must submit an action plan substantial amendment or abbreviated plan to HUD in accordance with this notice by March 1, 2011.

HUD encourages each grantee to carry out its NSP activities in the context of a comprehensive plan for the community's vision of how it can make its neighborhoods not only more stable, but also more sustainable, inclusive, competitive, and integrated into the overall metropolitan fabric, including access to transit, affordable housing, employers, and services. HUD also encourages grantees to incorporate green and sustainable development practices, such as the examples in Attachment C.

HUD encourages each local jurisdiction receiving an allocation to carefully consider its administrative capacity to use the funds within the statutory deadline.

Jurisdictions may cooperate to carry out their grant programs through a joint request to HUD. HUD is providing regulatory waivers and alternative requirements to allow joint requests among units of general local government and to allow joint requests between units of general local government and a state. Any two or more contiguous units of general local government that are in the same metropolitan area and that are eligible to receive an NSP grant may instead make a joint request to HUD to implement a joint NSP program. A jurisdiction need not have a joint agreement with an urban county under the regular CDBG entitlement program to request a joint program for NSP funding. Similarly, any community eligible to receive an NSP grant may instead make a request for a joint NSP program with its state. An NSP joint request under a cooperation agreement results in a single combined grant and a single action plan substantial amendment. Potential requestors should contact HUD as soon as possible (as far as possible in advance of publishing a proposed NSP substantial amendment) for technical guidance. The requestors will specify which jurisdiction will receive the funds and administer the combined grant on behalf of the requestors; in the case of a joint request between a local government jurisdiction and a state, the state will administer the combined grant. (Grantees choosing this option should consider the Consolidated Plan and citizen participation implications of this approach. The lead entity's substantial amendment or abbreviated plan will cover any participating members. The citizen participation process must include citizens of all jurisdictions participating in the joint NSP program, not just those of the lead entity.)

Given the rule of construction in HERA that NSP funds generally are construed as CDBG program funds, subject to CDBG program requirements, HUD generally is treating NSP3 funds as a special allocation of Fiscal Year (FY) 2010 CDBG funding. This has important consequences for local governments presently participating in an existing urban county program, and for metropolitan cities that have joint agreements with urban counties. HUD will consider any existing cooperation agreements between a local government and an urban county governing FY2010 CDBG funding (for purposes of either an urban county or a joint program) to automatically cover NSP funding as well. These cooperation agreements will continue to apply to the use of NSP funds for the duration of the NSP grant, just as cooperation agreements covering regular CDBG Entitlement program funds continue to apply to any use of the funds appropriated during the 3-year period covered by the agreements. For example, a local government presently has a cooperation agreement covering a joint program or participation in an urban county for federal FYs 2009, 2010 and 2011. The local government may choose to discontinue its participation with the county at the end of the applicable qualification period for purposes of regular CDBG entitlement funding. However, the county will still be responsible for any NSP3 projects funded in that community, and for any NSP3 funding the local government receives from the county, until those funds are expended and the funded activities are completed.

A third method of cooperating is also available. A jurisdiction may choose to apply for its entire grant, and then enter into a subrecipient agreement with another jurisdiction or nonprofit entity to administer the grant. In this manner, for example, all of the grantees operating in a single metropolitan area could designate the same land-bank entity (or the state housing finance agency) as a subrecipient for some or all of their NSP activities.

Each NSP3 grantee will have until March 1, 2011, to complete and submit a substantial amendment to its annual action plan or an abbreviated plan. A grantee that wishes to submit its action plan amendment to HUD electronically in the DRGR system rather than by paper may do so by contacting its local field office for the DRGR submission directions. Paper submissions to HUD also will be allowed, although each grantee must set up its action plan in DRGR prior to the deadline for the first required performance report after receiving a grant.

HUD encourages grantees, during development of their action plan amendments or abbreviated plans, to contact HUD field offices for guidance in complying with these requirements, or if they have any questions regarding meeting grant requirements.

Normally, in the CDBG program, a grantee takes at least 30 days soliciting comment from its citizens before it submits an annual action plan to HUD, which then has 45 days to accept or reject the plan. To expedite the process and to ensure that the NSP grants are awarded in a timely manner, while preserving reasonable citizen participation, HUD is waiving the requirement that the grantee follow its citizen participation plan for this substantial amendment. HUD is shortening the minimum time for citizen comments and requiring the substantial amendment or abbreviated plan to be posted on the grantee's official website as the materials are developed, published, and submitted to HUD.

A grantee will be deemed by HUD to have received its NSP grant at the time HUD signs its NSP grant agreement (or amendment thereof, in the case of a state that later receives reallocated grant funds).

Grantees are cautioned that, despite the expedited application and plan process, they are still responsible for ensuring that all citizens have equal access to information about the programs. Among other things, this means that each grantee must ensure that program information is available in the appropriate languages for the geographic area served by the jurisdiction. This will be a particular issue for states that make grants covering regular CDBG entitlement areas (or to entitlement grantees). Because regular State CDBG funds are not used in entitlement areas, State CDBG staffs may not be aware of limited English proficient (LEP) speaking populations in those metropolitan jurisdictions.

HUD will review each grantee submission for completeness and consistency with the requirements of this notice and will disapprove incomplete and inconsistent action plan amendments or abbreviated plans. HUD will allow revision and resubmission of a disapproved amendment or abbreviated plan in accordance with 24 CFR 91.500(d) so long as any such resubmission is received by HUD 45 days or less following the date of first disapproval.

In combination, the notice alternative requirements provide the following expedited steps for NSP grants:

- Proposed action plan amendment or abbreviated plan published via the usual methods and on the Internet for no less than 15 calendar days of public comment;
- Final action plan amendment or abbreviated plan posted on the Internet and submitted to HUD by March 1, 2011 (grant application includes Standard Form 424 (SF-424) and certifications);
- HUD expedites review;
- HUD accepts the plan and prepares a cover letter, grant agreement, and grant conditions;
- Grant agreement signed by HUD and immediately transmitted to the grantee;
- Grantee signs and returns the grant agreements;
- HUD establishes the line of credit and the grantee requests and receives DRGR access (if it does not already have access);
- After completing the environmental review(s) pursuant to 24 CFR part 58 and, as applicable, receiving from HUD or the state an approved Request for Release of Funds and certification, the grantee may draw down funds from the line of credit.

In consideration of the shortened comment period, it is essential that grantees ensure that affected parties have sufficient notice of the opportunity to comment. The action plan substantial amendment or abbreviated plan and citizen participation alternative requirement will permit an expedited grant-making process, but one that still provides for public notice, appraisal, examination, and comment on the activities proposed for the use of NSP3 grant funds.

NOTE: HUD believes an adequate and acceptable substantial amendment or abbreviated plan should be no longer than 25 pages. A plan should provide sufficient detail for citizens and HUD reviewers. Internet address links can be provided to longer elements that may change, such as detailed rehabilitation standards.

Requirement

1. General. Except as described in this notice, statutory and regulatory provisions governing the CDBG program for states and entitlement communities, as applicable, shall apply to the use of these funds. Except as described in this notice, non-entitlement local government grantees receiving a grant directly from HUD shall follow statutory and regulatory provisions governing the CDBG program for entitlement communities.

2. Contents of an NSP Action Plan substantial amendment or abbreviated plan. The elements in the NSP substantial amendment to the Annual Action Plan or an abbreviated plan required for the CDBG program under part 91 are:

a. General information about needs, distribution, use of funds, and definitions:

i. Each grantee must use the HUD Foreclosure Need website as linked to from www.hud.gov/nsp to submit to HUD the locations of its NSP3 areas of greatest need. On this site, HUD provides estimates of foreclosure need and a foreclosure related needs scores at the Census Tract level. The score rank need from 1 to 20, with 20 being census tracts with the HUD-estimated greatest need.

ii. The neighborhood or neighborhoods identified by the NSP3 grantee as being the areas of greatest need must have an individual or average combined index score for the grantee's identified target geography that is not less than the lesser of 17 or the twentieth percentile most needy score in an individual state. For example, if a state's twentieth percentile most needy census tract is 18, the requirement will be a minimum need of 17. If, however, a state's twentieth percentile most needy census tract is 15, the requirement will be a minimum need of

15. HUD will provide the minimum threshold for each state at its website www.hud.gov/nsp. If more than one neighborhood is identified in the Action Plan, HUD will average the neighborhood NSP3 scores, weighting the scores by the estimated number of housing units in each identified neighborhood.

iii. A narrative describing how the distribution and uses of the grantee's NSP funds will meet the requirements of Section 2301(c)(2) of HERA, as amended by the Recovery Act and the Dodd-Frank Act;

iv. For the purposes of the NSP3, the narratives will include:

(A) A definition of "blighted structure" in the context of state or local law;

(B) A definition of "affordable rents;"

(C) A description of how the grantee will ensure continued affordability for NSP-assisted housing; and

(D) A description of housing rehabilitation standards that will apply to NSP-assisted activities.

b. Information by activity describing how the grantee will use the funds, identifying:

i. the eligible use of funds under NSP3;

ii. the eligible CDBG activity or activities;

iii. the areas of greatest need addressed by the activity or activities;

vi. the expected benefit to income-qualified persons or households or areas;

v. appropriate performance measures for the activity (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels represented in DRGR, which are currently 50 percent of area median income and below, 51 to 80 percent, and 81 to 120 percent);

vi. amount of funds budgeted for the activity;

vii. the name and location of the entity that will carry out the activity; and

viii. the expected start and end dates of the activity.

c. A brief description of the general terms under which assistance will be provided, including:

i. Range of interest rates (if any);

ii. Duration or term of assistance;

iii. Tenure of beneficiaries (e.g., renters or homeowners); and

vi. If the activity produces housing, how the design of the activity will ensure continued affordability;

v. How the grantee shall, to the maximum extent feasible, provide for the hiring of employees who reside in the vicinity of NSP3 projects or contract with small businesses that are owned and operated by persons residing in the vicinity of such project, including information on existing local ordinances that address these requirements;

vi. The procedures used to create preferences for the development of affordable rental housing developed with NSP3 funds; and

vii. Whether the funds used for the activity are to count toward the requirement to provide benefit to low-income persons (earning 50 percent or less of area median income).

d. The action plan narrative should specifically address how the grantee's program design will address the local housing market conditions.

e. Information on how to contact grantee program administrators, so that citizens and other interested parties know whom to contact for additional information.

3. Continued affordability. Grantees shall ensure, to the maximum extent practicable and for the longest feasible term, that the sale, rental, or redevelopment of abandoned and foreclosed-upon homes and residential properties under this section remain affordable to individuals or families

whose incomes do not exceed 120 percent of area median income or, for units originally assisted with funds under the requirements of section 2301(f)(3)(A)(ii) of HERA, as amended, remain affordable to individuals and families whose incomes do not exceed 50 percent of area median income.

a. In its NSP action plan substantial amendment, a grantee will define "affordable rents" and the continued affordability standards and enforcement mechanisms that it will apply for each (or all) of its NSP activities. HUD will consider any grantee adopting the HOME program standards at 24 CFR 92.252(a), (c), (e), and (f), and 92.254, to be in minimal compliance with this standard and expects any other standards proposed and applied by a grantee to be enforceable and longer in duration. (Note that HERA's continued affordability standard is longer than that required of subrecipients and participating units of general local government under 24 CFR 570.503 and 570.501(b).)

b. The grantee must require each NSP-assisted homebuyer to receive and complete at least 8 hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. If the grantee is unable to meet this requirement for a good cause (e.g., there are no HUD-approved housing counseling agencies within the grantee's jurisdiction, or there are no HUD-approved housing counseling agencies within the grantee's jurisdiction that engage in homebuyer counseling), the grantee may submit a request for an exception to this requirement to the responsible HUD field office, and the HUD field office has the authority to grant an exception for good cause. The grantee must ensure that the homebuyer obtains a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages (see, Statement on Subprime Mortgage Lending issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal

Deposit Insurance Corporation, Department of the Treasury, and National Credit Union Administration, available at http://www.fdic.gov/regulations/laws/rules/5000-5160.html). Grantees must design NSP programs to comply with this requirement and must document compliance in the records, for each homebuyer. Grantees are cautioned against providing or permitting homebuyers to obtain subprime mortgages for whom such mortgages are inappropriate, including homebuyers who qualify for traditional mortgage loans.

4. Citizen participation alternative requirement. HUD is providing an alternative requirement to 42 U.S.C. 5304(a)(2) and (3), to expedite distribution of grant funds and to provide for expedited citizen participation for the NSP substantial amendment. Provisions of 24 CFR 91.105(k), 91.115(i), 570.302 and 570.486, with respect to following the citizen participation plan, are waived to the extent necessary to allow implementation of the requirements below.

a. *Initial Allocation.* To receive its grant allocation, a grantee must submit to HUD for approval an NSP3 application by March 1, 2011. This submission will include a signed SF-424, signed certifications, and a substantial action plan amendment or abbreviated plan meeting the requirements of paragraph b below. (24 CFR 91.505 is waived to the extent necessary to require submission of the substantial amendment to HUD for approval in accordance with this notice.)

Reallocation. To receive an NSP reallocation, a grantee must submit to HUD for approval an NSP application by the deadline indicated in a reallocation announcement. This submission will include a signed standard federal form SF-424, signed certifications, and a substantial action plan amendment or abbreviated plan meeting the requirements of paragraph B.3.b below. (24 CFR 91.505 is waived to the extent necessary to require submission of the substantial amendment to HUD for approval in accordance with this notice.)

b. Each grantee must prepare and submit its annual Action Plan amendment or abbreviated plan to HUD in accordance with the consolidated plan procedures under the CDBG program as modified by this notice, or HUD will reallocate the funds allocated for that grantee. HUD is providing alternative requirements to 42 U.S.C. 5304(a)(2) and waiving 24 CFR 91.105(c)(2), 91.105(k), 91.115(c)(2), and 91.115(i) to the extent necessary to allow the grantee to provide no fewer than 15 calendar days for citizen comment (rather than 30 days) for its initial NSP submission and any subsequent substantial NSP action plan amendment, and to require that, at the time of submission to HUD, each grantee post its approved action plan amendment and any subsequent NSP amendments on its official website along with a summary of citizen comments received within the 15-day comment period. After HUD processes and approves the plan amendment and both HUD and the grantee have signed the grant agreement, HUD will establish the grantee's line of credit in the amount of funds included in the Action Plan amendment, up to the allocation amount.

5. Joint requests. To expedite the use of funds, HUD is providing an alternative requirement to 42 U.S.C. 5304(i) and is waiving 24 CFR 570.308 to the extent necessary to allow for additional joint programs described below.

a. Unit of General Local Government Joint Agreements. Two or more contiguous jurisdictions that are eligible to receive a NSP allocation and are located in the same metropolitan area may enter into joint agreements. All members to the joint agreement must be eligible to receive NSP1 or NSP3 funds, and one unit of general local government must be designated as the lead entity. The lead entity must execute the NSP grant agreement with HUD. Consistent with 24 CFR 570.308, the lead entity must assume responsibility for administering the NSP grant on behalf of all members, in compliance with applicable program requirements. The lead entity's substantial amendment to the action plan or abbreviated plan will include all participating communities.

b. Joint agreements with a state. Any jurisdiction that is eligible to receive an NSP allocation may enter into a joint agreement with its state. The state shall be the lead entity and must assume responsibility for administering the NSP grant on behalf of the local government, in compliance with applicable program requirements. The substantial amendment to the state's action plan will include any participating unit of general local government.

c. Local jurisdictions receiving reallocation funds may enter into joint agreements in accordance with paragraph B.5.a. or b., regardless of whether the local jurisdiction had a joint agreement for the original NSP allocation.

6. Effect of existing cooperation agreements governing joint programs and urban counties for NSP3 (see NSP1 Notice for parallel language for NSP1 grantees). Any cooperation agreement between a unit of general local government and a county, concerning either a joint program or participation in an urban county under 24 CFR 570.307 or 570.308, and governing CDBG funds appropriated for federal FY 2010, will be considered to incorporate and apply to NSP3 funding. Any such cooperation agreements will continue to apply to the use of NSP3 funds until the NSP3 funds are expended and the NSP3 grant is closed out. Grantees should note that certain provisions in existing cooperation agreements that govern CDBG funding may be inconsistent with parts of HERA, the Recovery Act, the Dodd-Frank Act or this notice. For instance, set minimum and/or maximum allocation amounts may conflict with priority distributions to areas of greatest need identified in the grantee's action plan substantial amendment. Conforming amendments should be made to existing cooperation agreements, as necessary, to comply with NSP statutory requirements and this notice.

C. Reimbursement for pre-award costs

Background

NSP grantees will need to move forward rapidly to prepare the NSP substantial amendment or abbreviated plan and to undertake other administrative actions, including environmental reviews, as soon as allocations are known. Therefore, HUD is granting permission to states and jurisdictions receiving a direct allocation of NSP funds to incur pre-award costs as if each was a new grantee preparing to receive its first allocation of CDBG funds.

Requirement

HUD is waiving 24 CFR 570.200(h) to the extent necessary to grant permission to jurisdictions receiving a direct NSP allocation under this notice to incur pre-award costs as if each was a new grantee preparing to receive its first allocation of CDBG funds. Similarly, in accordance with OMB Circular A-87, Attachment B, paragraph 31, HUD is allowing states to incur pre-award costs as if each was a new grantee preparing to receive its first allocation of CDBG funds. NSP grantees will be allowed to incur costs necessary to develop the NSP substantial action plan amendment and undertake other administrative actions necessary to receive its first grant, prior to the costs being included in the final plan, provided that the other conditions of 24 CFR 570.200(h) are met. (For units of general local government applying to the state (including entitlements not receiving a direct NSP allocation under this notice), 24 CFR 570.489(b) applies unmodified. Units of general local government receiving direct NSP allocations may incur pre-award costs as would an entitlement community.)

D. Grantee capacity and grant conditions

Background

In the October 6, 2008 Notice, HUD encouraged each local jurisdiction receiving an allocation to carefully consider its administrative capacity to use the funds within the statutory deadline. To support this consideration, HUD will provide each grantee a self-assessment tool that grantees may find useful in better understanding their capacity to undertake and manage NSP activities. This is essentially the same self-assessment tool that is used for NSP Technical Assistance purposes and it will allow HUD to more rapidly identify capacity gaps and technical assistance needs and to provide appropriate technical assistance. Although HUD suggests that every NSP grantee complete and submit the self-assessment with its substantial amendment or abbreviated plan, HUD will require some grantees to complete and submit such a self-assessment as a special condition of receiving funding.

Requirement

For NSP grantees that HUD determines are high risk in accordance with 24 CFR 85.12(a), HUD will apply additional grant conditions in accordance with 24 CFR 85.12(b).

E. Income eligibility requirement changes

Background

The NSP program includes two low- and moderate-income requirements at HERA section 2301(f)(3)(A) that supersede existing CDBG income qualification requirements. Under the heading "Low and Moderate Income Requirement," HERA states that:

"all of the funds appropriated or otherwise made available under this section shall be used with respect to individuals and families whose income does not exceed 120 percent of area median income."

This provision does two main things. First, for the purposes of NSP, it effectively supersedes the overall benefit provisions of the HCD Act and the CDBG regulations, which allow up to 30 percent of a grant to be used for activities that meet a national objective other than low- and moderate-income benefit. Thus, NSP allows the use of *only* the low- and moderate-income benefit national objective. Activities may **not** qualify under NSP using the "prevent or eliminate slums and blight" or "address urgent community development needs" objectives.

Second, this provision also redefines and supersedes the definition of "low- and moderate-income," effectively allowing households whose incomes exceed 80 percent of area median income but do not exceed 120 percent of area median income to qualify as if their incomes did not exceed the published low- and moderate-income levels of the regular CDBG program. To prevent confusion, HUD will refer to this new income group as "middle income," and keep the regular CDBG definitions of "low-income" and "moderate income" in use. Further, HUD will characterize aggregated households whose incomes do not exceed 120 percent of median income as "low-, moderate-, and middle-income households," abbreviated as LMMH. For the purposes of NSP only, an activity may meet the HERA low- and moderate-income national objective if the assisted activity:

- provides or improves permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income (abbreviated as LMMH);
- serves an area in which at least 51 percent of the residents have incomes at or below 120 percent of area median income (LMMA); or
- serves a limited clientele whose incomes are at or below 120 percent of area median income (LMMC).

HUD will use the parenthetical terms above to refer to NSP national objectives in program implementation, to avoid confusion with the regular HCD Act definitions.

Land banks are not allowed in the regular CDBG program because of the very high risk that the delay between acquiring property and meeting a national objective can be excessively long, attenuating the intended CDBG program benefits by delaying benefit far beyond the annual or even the 5-year consolidated plan cycles. In the regular CDBG program (and in NSP other than in an eligible land-bank use), a property acquisition activity is dependent on the subsequent re-use of the property meeting a national objective in order to demonstrate program compliance. Given this, the HERA direction that assistance to land banks is an eligible use of NSP funds requires an alternative requirement and policy clarification.

For grantees choosing to assist land banks or demolition of structures with NSP funds, the change to the income qualification level for low-, moderate-, and middle-income areas will likely include most of the neighborhoods where property stabilization is required. If an assisted land bank is not merely acquiring properties, but is also working in an area in which other activities are being carried out that are intended to arrest neighborhood decline, such as maintenance, demolition, and facilitating redevelopment of the properties, HUD will, for NSP-assisted activities only, accept that the acquisition and management activities of the land bank may provide sufficient benefit to an area generally (as described in 24 CFR 570.208(a)(1) and 570.483(b)(1)) to meet a national objective (LMMA) prior to final disposition of the banked property. HUD notes that the grantee must determine the actual service area benefiting from a land bank's activities, in accordance with the regulations.

However, HUD does not believe the benefits of just holding property are sufficient to stabilize most neighborhoods or that this is the best use of limited NSP funds absent a re-use plan. Therefore, HUD requires that a land bank may not hold a property for more than 10 years without obligating the property for a specific, eligible redevelopment of that property in accordance with NSP requirements.

Note that if a state provides funds to an entitlement community, the entitlement community must apply the area median income levels applicable to its regular CDBG program geography and not the "balance of state" levels.

Other than the change in the applicable low- and moderate- income qualification level from 80 percent to 120 percent and this notice's change to the calculation at 570.483(b)(3), the area benefit, housing, and limited clientele benefit requirements at 24 CFR 570.208(a) and 570.483(b) remain unchanged, as does the required documentation.

The other NSP low- and moderate-income related provision, as modified by the Dodd-Frank Act, states that:

"not less than 25 percent of the funds appropriated or otherwise made available under this section shall be used to house individuals or families whose incomes do not exceed 50 percent of area median income."

The Dodd-Frank Act struck language in HERA that specified that funds meeting the 25 percent requirement must be used specifically for the purchase and redevelopment of abandoned and foreclosed homes or residential properties. This means that, as of the effective date of the Dodd-Frank Act, any NSP eligible activity used to house individuals or families at or below 50 percent area medium income may be used to satisfy this requirement (i.e., vacant properties that are not abandoned or foreclosed may be used to meet the requirement as well as eligible commercial properties that are reused to house individuals and families at or below 50% AMI). However, NSP1 and NSP2 funds already obligated or expended prior July 21, 2010, do not retroactively satisfy this requirement.

HUD advises grantees to take note of this threshold as they design NSP activities. This provision does not have a parallel in the regular CDBG program. Grantees must document that an amount equal to at least 25 percent of a grantee's NSP grant (initial allocation plus any program income) has been budgeted in the initial approved action plan substantial amendment or abbreviated plan for activities that will provide housing for income-qualified individuals or families. Prior to and at grant closeout, HUD will review grantees for compliance with this provision by determining whether at least 25 percent of grant funds have been expended for housing for individual households whose incomes do not exceed 50 percent of area median income.

HUD is providing a waiver and alternative requirement to allow grantees to determine low- and moderate income benefit on a unit basis to allow greater support of mixed income housing than the structure basis required by 24 CFR 570.483(b)(3). (Under the cited regulation, the general rule is that at least 51 percent of the residents of an assisted structure must be income eligible.) Under the unit approach, one or more of the units in a structure must house income-eligible families, but the remainder of the units may be market rate, so long as the proportion of assistance provided compared to the overall project budget is no more than the proportion of units that will be occupied by income-eligible households compared to the number of units in the overall project. Under the unit approach, the number of income-eligible units is proportional to the amount of assistance provided. Note that this approach may only be used if the units are generally comparable in size and finishes. Based on HUD experience, this approach is generally more compatible with large-scale development of mixed-income housing than the structure approach under which a dollar of CDBG assistance to a structure means that 51 percent of the units must meet income requirements.

For the purposes of NSP, adopting the unit basis continues to benefit individuals and families whose income does not exceed 120 percent of area median income by limiting the proportion of the funding to the proportion of units that are being assisted with NSP funds. This approach also helps to avoid displacing existing over-income tenants in a building being treated with NSP. Finally, it promotes the type of mixed-income developments that experience shows to be more successful both economically and socially. Therefore, the waiver and alternative requirements allow the grantee a choice. The grantee may measure benefit within a housing development project (1) according to the existing CDBG requirements, (2) according to the HOME program requirements at 24 CFR 92.205(d) or (3) according to the modified CDBG alternative requirements specified in this notice, which extend the CDBG exception noted above. The state must select and use just one method for each project.

Requirements

1. Overall benefit supersession and alternative requirement. The requirements at 42 U.S.C. 5301(c), 42 U.S.C. 5304(b)(3)(A), 24 CFR 570.484 (for states), and 24 CFR 570.200(a)(3) that 70 percent of funds are for activities that benefit low- and moderate-income persons are superseded and replaced by section 2301(f)(3)(A) of HERA. One hundred percent of NSP funds must be used to benefit individuals and households whose income does not exceed 120 percent of area median income. NSP shall refer to such households as "low-, moderate-, and middle-income."

2. National objectives supersession and alternative requirements. The requirements at 42 U.S.C 5301(c) are superseded and 24 CFR 570.208(a) and 570.483 are waived to the extent necessary to allow the following alternative requirements:

a. for purposes of NSP only, the term "low- and moderate-income person" as it appears throughout the CDBG regulations at 24 CFR part 570 shall be defined as a member of a low- , moderate-, and middle-income household, and the term "low- and moderate-income household" as it appears throughout the CDBG regulations shall be defined as a household having an income equal to or less than 120 percent of area median income, measured as 2.4 times the current Section 8 income limit for households below 50 percent of median income, adjusted for family size. A state choosing to carry out an activity directly must apply the requirements of 24 CFR 570.208(a) to determine whether the activity has met the low-, moderate-, and middle-income (LMMI) national objective and must maintain the documentation required at 24 CFR 570.506 to demonstrate compliance to HUD.

b. The national objectives related to prevention and elimination of slums and blight and addressing urgent community development needs (24 CFR 570.208(b) and (c) and 570.483(c) and (d)) are not applicable to NSP-assisted activities.

c. Each grantee whose plan includes assisting rental housing shall develop and make public its definition of affordable rents for NSP-assisted rental projects.

d. An NSP-assisted property may not be held in a land bank for more than 10 years without obligating the property for a specific, eligible redevelopment of that property in accordance with NSP requirements.

e. Not less than 25 percent of any NSP grant shall be used to house individuals or families whose incomes do not exceed 50 percent of area median income.

f. HUD will consider assistance for a multi-unit housing project involving new construction, acquisition, reconstruction, or rehabilitation to benefit LMMI households in the following circumstances:

(i)(A) The NSP assistance defrays the development costs of a housing project providing eligible permanent residential units that, upon completion, will be occupied by income-qualified households; and

(B) if the project is rental, the units occupied by income-qualified households will be leased at affordable rents. The grantee or unit of general local government shall adopt and make public its standards for determining ‘‘affordable rents’’ for this purpose; and

(C) The proportion of the total cost of developing the project to be borne by NSP assistance is no greater than the proportion of units in the project that will be occupied by income-qualified households; or

(ii) When NSP assistance defray the development costs of eligible permanent residential units, such assistance shall be considered to benefit LMMI persons if the grantee follows the provisions of 24 CFR 92.205(d); or

(iii) The requirements of 24 CFR 570.208(a)(3) or 570,483(b)(3) are met, as applicable.

(iv) The grantee must select and use just one method for each project.

(v) The term ‘‘project’’ will be defined as in the HOME Program at 24 CFR 92.2.

(vi) If the grantee applies option (i) or (ii) above to a housing project, 24 CFR 570.208(a)(3) or 570.483(b)(3), as applicable, is waived for that project.

F. State distribution to entitlement communities and Indian Tribes

Background

This notice includes an alternative requirement to the HCD Act and a regulatory waiver allowing distribution of funds by a state to CDBG regular entitlement communities and Tribes. This is consistent with the provision of HERA that specifically sets distribution priorities for areas with the greatest need, including “metropolitan areas, metropolitan cities, urban areas, rural areas, low- and moderate-income areas….” Therefore, states receiving allocations under this notice may distribute funds to or within any jurisdiction within the state that is among those with the greatest need, even if the jurisdiction is among those receiving a direct formula allocation of funds from HUD under the regular CDBG program or this notice.

Requirement

Alternative requirement for distribution to CDBG metropolitan cities, urban counties, and Tribes. In accordance with the direction of HERA that grantees distribute funds to the areas of greatest need, HUD is providing an alternative requirement to 42 U.S.C. 5302(a)(7) (definition of "nonentitlement area") and waiving provisions of 24 CFR part 570, including 24 CFR 570.480(a), that would prohibit states electing to receive CDBG funds from distributing such funds to units of general local government in entitlement communities or to Tribes. The appropriations law supersedes the statutory distribution prohibition at 42 U.S.C. 5306(d)(1) and (2)(A). Alternatively, the state is required to distribute funds without regard to a local government status under any other CDBG program and must use funds in entitlement jurisdictions if they are identified as areas of greatest need, regardless of whether the entitlement receives its own NSP allocation.

G. State's direct action

Background

In the State CDBG Program, states receiving CDBG funds may not directly use the funds for activities, but must distribute them to units of general local government, which then use the funds for program activities. HUD also notes the language of HERA section 2301(c) that says, in part, that:

> "Any State . . . that receives amounts pursuant to this section shall . . . use such amounts to purchase and redevelop...."

This clearly speaks to the states using funds directly for projects and supersedes the HCD Act direction for states to only *distribute* funds to nonentitlement areas. Direct use of funds by a state may also result in more expeditious use of NSP funds. Therefore, a state receiving NSP funds may carry out NSP activities directly for some or all of its assisted grant activities, just as CDBG entitlement communities do under 24 CFR 570.200(f), including, but not limited to, carrying out activities using its own employees, procuring contractors, private developers, and providing loans and grants through nonprofit subrecipients (including local governments and other public nonprofits such as regional or local planning or development authorities and public housing authorities).

For those activities a state chooses to carry out directly, HUD strongly advises the state to adopt the recordkeeping required for an entitlement community at 24 CFR 570.506 and the subrecipient agreement provisions at 24 CFR 570.503. Also, in such cases, as an alternative requirement to 42 U.S.C. 5304(i), the state may retain and re-use program income as if it were an entitlement community.

HUD is granting regulatory waivers of State CDBG regulations to conform the applicable management, real property change of use, and recordkeeping rules when a state chooses to carry out activities as if it were an entitlement community.

Requirements

1. Responsibility for state review and handling of noncompliance. This change conforms NSP requirements with the waiver allowing the state to carry out activities directly. 24 CFR 570.492 is waived and the following alternative requirement applies: The state shall make reviews and audits, including on-site reviews of any subrecipients, designated public agencies, and units of general local government as may be necessary or appropriate to meet the requirements of 42 U.S.C.5304(e)(2), as amended, as modified by this notice. In the case of noncompliance with these requirements, the state shall take such actions as may be appropriate to prevent a continuance of the deficiency, mitigate any adverse effects or consequences, and prevent a

recurrence. The state shall establish remedies for noncompliance by any designated public agencies or units of general local governments and for its subrecipients.

2. Change of use of real property for state grantees acting directly. This waiver conforms the change of use of real property rule to the waiver allowing a state to carry out activities directly. For purposes of this program, in 24 CFR 570.489(j), (j)(1), and the last sentence of (j)(2), "unit of general local government" shall be read as "unit of general local government or state."

3. Recordkeeping for a state grantee acting directly. Recognizing that the state may carry out activities directly, 24 CFR 570.490(b) is waived in such a case and the following alternative provision shall apply:

State Records. The state shall establish and maintain such records as may be necessary to facilitate review and audit by HUD of the state's administration of NSP funds under 24 CFR 570.493. Consistent with applicable statutes, regulations, waivers and alternative requirements, and other federal requirements, the content of records maintained by the state shall be sufficient to: (1) enable HUD to make the applicable determinations described at 24 CFR 570.493; (2) make compliance determinations for activities carried out directly by the state; and (3) show how activities funded are consistent with the descriptions of activities proposed for funding in the action plan. For fair housing and equal opportunity purposes, and as applicable, such records shall include data on the racial, ethnic, and gender characteristics of persons who are applicants for, participants in, or beneficiaries of the program.

4. State compliance with certifications for state grantees acting directly. This is a conforming change related to the waiver to allow a state to act directly. Because a state grantee under this appropriation may carry out activities directly, HUD is applying the regulations at 24 CFR 570.480(c) with respect to the basis for HUD determining whether the state has failed to carry

out its certifications, so that such basis shall be that the state has failed to carry out its certifications in compliance with applicable program requirements.

5. Clarifying note on the process for environmental release of funds when a state carries out activities directly. Usually, a state distributes CDBG funds to units of local government and takes on HUD's role in receiving environmental certifications from the grantees and approving releases of funds. For NSP, HUD allows a state grantee to also carry out activities directly instead of distributing them to other governments. According to the environmental regulations at 24 CFR 58.4, when a state carries out activities directly, the state must submit the certification and request for release of funds to HUD for approval.

H. Eligibility and allowable costs

Background

Most of the activities eligible under NSP are correlated with CDBG-eligible activities under 42 U.S.C. 5305(a). This correlation reduces implementation risks, because it ensures that the NSP grants are administered largely in accordance with long-established CDBG rules and controls. The table in the requirements paragraph below shows the eligible uses under NSP and the eligible activities from the regulations for the regular CDBG entitlement program that HUD has determined best correspond to those uses. If a grantee creates a program design that includes a CDBG-eligible activity that is not shown in the table to support an NSP-eligible use, the Department is providing an alternative requirement to 42 U.S.C. 5305(a) that HUD may allow a grantee an additional eligible-activity category if HUD finds the activity to be in compliance with NSP statutory requirements. As under the regular CDBG program, grantees may fund costs, such as reasonable developer’s fees, related to NSP-assisted housing rehabilitation or construction activities. Only NSP1 funds may be used to redevelop acquired property for nonresidential uses, such as public parks, commercial uses, or mixed residential and commercial uses. Redevelopment activities using NSP2 and NSP3 funds must be for housing.

The annual entitlement CDBG program allows up to 20 percent of any grant amount plus program income may be used for general administration and planning costs. The State CDBG Program is also subject to the 20 percent limitation, but within that cap up to 3 percent may be used by the state for state administrative costs and technical assistance to potential local government program grantees, with the remainder available to be granted to local government grantees for their administrative costs. Because some of the costs usually allocated under these caps are not applicable to NSP grants (for example, the costs of completing the entire consolidated plan process), these amounts seem excessive to HUD in the context of the NSP program. On the other hand, HUD wants to encourage and support expeditious, appropriate, and compliant use of grant funds, and to prevent fraud, waste, and abuse of funds. Therefore, HUD is providing an alternative requirement that an amount of up to 10 percent of an NSP grant provided to a jurisdiction and of up to 10 percent of program income earned may be used for general administration and planning activities as those are defined at 24 CFR 570.205 and 206. For all grantees, including states, the 10 percent limitation applies to the grant as a whole.

The regulatory and statutory requirements for state match for program administration at 24 CFR 570.489(a)(i) are superseded by the statutory direction at section 2301(e)(2) of HERA that no matching funds shall be required for a state or unit of general local government to receive a grant.

Requirements

1. Use of grant funds must constitute an eligible use under HERA.

2. In addition to being an eligible NSP use of funds, each activity funded under NSP must also be

CDBG-eligible under 42 U.S.C. 5305(a) and meet a CDBG national objective.

3.a. Certain CDBG-eligible activities correlate to specific NSP-eligible uses and vice versa. 42 U.S.C. 5305(a) and 24 CFR 570.201-207 and 570.482(a) through (d) are superseded to the extent necessary to allow the eligible uses described under section 2301(c)(4) of HERA in accordance with this paragraph (including the table and subparagraphs below) or with permission granted, in writing, by HUD upon a written request by the grantee that demonstrates that the proposed activity constitutes an eligible use under NSP. All NSP grantees, including states, will use the NSP categories and CDBG entitlement regulations listed below.

NSP-Eligible Uses	**Correlated Eligible Activities From the CDBG Entitlement Regulations**
(A) Establish financing mechanisms for purchase and redevelopment of *foreclosed upon homes and residential properties*, including such mechanisms as soft-seconds, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers	• As part of an activity delivery cost for an eligible activity as defined in 24 CFR 570.206. • Also, the eligible activities listed below to the extent financing mechanisms are used to carry them out.
(B) Purchase and rehabilitate *homes and residential properties that have been abandoned or foreclosed upon*, in order to sell, rent, or redevelop such homes and properties	• 24 CFR 570.201(a) Acquisition (b) Disposition, (i) Relocation , and (n) Direct homeownership assistance (as modified below); • 24 CFR 570.202 eligible rehabilitation and preservation activities for homes and other residential properties. • HUD notes that any of the activities listed above may include required homebuyer counseling as an activity delivery cost
(C) Establish and operate land banks for *homes and residential properties that have been foreclosed upon*	• 24 CFR 570.201(a) Acquisition and (b) Disposition. • HUD notes that any of the activities listed above may include required homebuyer counseling as an activity delivery cost
(D) Demolish *blighted structures*	• 24 CFR 570.201(d) Clearance for blighted structures only.
(E) Redevelop *demolished or vacant properties* as housing*	• 24 CFR 570.201(a) Acquisition, (b) Disposition,

	(c) Public facilities and improvements, (e) Public services for housing counseling, but only to the extent that counseling beneficiaries are limited to prospective purchasers or tenants of the redeveloped properties, (i) Relocation, and (n) Direct homeownership assistance (as modified below). • 24 CFR 570.202 Eligible rehabilitation and preservation activities for demolished or vacant properties. • 24 CFR 570.204 Community based development organizations. • HUD notes that any of the activities listed above may include required homebuyer counseling as an activity delivery cost

*NSP1 funds used under eligible use (E) may be used for nonresidential purposes, while NSP2 and NSP3 funds must be used for housing.

b. HUD will not consider requests to allow foreclosure prevention activities, or to allow demolition of structures that are not blighted. Neither will it allow purchase of residential properties and homes that have not been abandoned or foreclosed upon, except under paragraph (E) of the eligible use chart above. HUD does not have the authority to permit uses or activities not authorized by HERA.

c. New construction of housing is eligible as part the redevelopment of demolished or vacant properties as provided in paragraph (E) of the eligible use chart above.

d. 24 CFR 570.201(n) is waived and an alternative requirement provided for 42 U.S.C. 5305(a) to the extent necessary to allow provision of NSP-assisted homeownership assistance to persons whose income does not exceed 120 percent of median income.

e. No NSP2 or NSP3 funds may be used to demolish any public housing (as defined by Section 3 of the U.S. Housing Act of 1937 (42 U.S.C. 1437a)).

f. For NSP2 and NSP3, a grantee may not use more than 10 percent of its grant for demolition activities under HERA sections 2301(c)(4)(C) and (D), unless the Secretary determines that such use represents an appropriate response to local market conditions. NSP2 and NSP3 grantees seeking to use more than 10 percent of their grant amounts on demolition activities must request a waiver from HUD.

4. Alternative requirement for the limitation on planning and administrative costs. 24 CFR 570.200(g) and 570.489(a)(3) are waived to the extent necessary to allow each grantee under this notice to expend no more than 10 percent of its grant amount, plus 10 percent of the amount of program income received by the grantee, for activities eligible under 24 CFR 570.205 or 206. The requirements at 24 CFR 570.489 are waived to the extent that they require a state match for general administrative costs. (States may use NSP funds under this 10 percent limitation to provide technical assistance to local governments and nonprofit program participants.)

I. Rehabilitation standards

Background

HERA provides that any NSP-assisted rehabilitation of a foreclosed-upon home or residential property shall be to the extent necessary to comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability, in order to sell, rent, or redevelop such homes and properties. HUD is also imposing this requirement for NSP3-assisted new construction. This imposes a requirement that does not exist in the CDBG program. This means that each grantee must describe or reference in its NSP action plan amendment what rehabilitation standards it will apply for NSP-assisted rehabilitation. As a reminder, grantees are subject to Section 504 of the Rehabilitation Act of 1973 and the Fair Housing Act, including their respective provisions related to physical accessibility standards for persons with disabilities. See 24 CFR part 8; 24 CFR 100.205. See also 24 CFR 570.487 and 24 CFR 570.602 and. HUD will monitor to ensure the standards are implemented.

HERA defines rehabilitation to include improvements to increase the energy efficiency or conservation of such homes and properties or to provide a renewable energy source or sources for such homes and properties. Such improvements are also eligible under the regular CDBG program. HUD strongly encourages grantees to use NSP funds not only to stabilize neighborhoods in the short-term, but to strategically incorporate modern, green building and energy-efficiency improvements in all NSP activities to provide for long-term affordability and increased sustainability and attractiveness of housing and neighborhoods. At minimum, NSP3 grantees must have the rehabilitation standards required below. See Appendix C for examples of green and energy-efficiency actions. Additional resources related to sustainable and energy-efficient construction are available on the NSP Resource Exchange website (http://www.hud.gov/nspta).

Requirement. For NSP3, HUD is requiring that all gut rehabilitation or new construction (i.e., general replacement of the interior of a building that may or may not include changes to structural elements such as flooring systems, columns or load bearing interior or exterior walls) of residential buildings up to three stories must be designed to meet the standard for Energy Star Qualified New Homes. All gut rehabilitation or new construction of mid -or high-rise multifamily housing must be designed to meet American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) Standard 90.1-2004, Appendix G plus 20 percent (which is the Energy Star standard for multifamily buildings piloted by the Environmental Protection Agency and the Department of Energy). Other rehabilitation must meet these standards to the extent applicable to the rehabilitation work undertaken, e.g., replace older obsolete products and appliances (such as windows, doors, lighting, hot water heaters, furnaces, boilers, air conditioning units, refrigerators, clothes washers and dishwashers) with Energy Starlabeled products. Water efficient toilets, showers, and faucets, such as those with the WaterSense label, must be installed. Where relevant, the housing should be improved to mitigate the impact of disasters (e.g., earthquake, hurricane, flooding, fires).

J. Sale of homes

Background

Section 2301(d)(3) of HERA directs that, if an abandoned or foreclosed-upon home or residential property is purchased, redeveloped, or otherwise sold to an individual as a primary residence, then such sale shall be in an amount equal to or less than the cost to acquire and redevelop or rehabilitate such home or property up to a decent, safe, and habitable condition. (Sales and closing costs are eligible NSP redevelopment or rehabilitation costs). Note that the maximum sales price for a property is determined by aggregating all costs of acquisition, rehabilitation, and redevelopment (including related activity delivery costs, which generally may include, among other items, costs related to the sale of the property).

Requirements

1. In its records, each grantee must maintain sufficient documentation about the purchase and sale amounts of each property and the sources and uses of funds for each activity so that HUD can determine whether the grantee is in compliance with this requirement. A grantee will be expected to provide this documentation individually for each activity.

2. In determining the sales price limitation, HUD will not consider the costs of boarding up, lawn mowing, simply maintaining the property in a static condition, or, in the absence of NSP-assisted rehabilitation or redevelopment of the property, the costs of completing a sales transaction or other disposition to be redevelopment or rehabilitation costs. These costs may not be included by the grantee in the determination of the sales price for an NSP-assisted property.

3. For reporting purposes **only**, for a housing program involving multiple single-family structures under the management of a single entity, HUD will permit reporting the aggregation of activity delivery costs across the total portfolio of projects until completion of the program or closeout of the grant with HUD, whichever comes earlier.

K. Acquisition and relocation

Background

Acquisition of Foreclosed-Upon Properties. HUD notes that section 2301(d)(1) of HERA conflicts with section 301(3) of the URA (42 U.S.C. 4651) and related regulatory requirements at 49 CFR 24.102(d). As discussed further, section 2301(d)(1) of HERA requires that any acquisition of a foreclosed-upon home or residential property under NSP be at a discount from the current market-appraised value of the home or property and that such discount shall ensure that purchasers are paying below-market value for the home or property. Section 301(3) of the URA, as implemented at 49 CFR 24.102(d), provides that an offer of just compensation shall not be less than the agency's approved appraisal of the fair market value of such property. These URA acquisition policies apply to any acquisition of real property for a federally funded project, except for acquisitions described in 49 CFR 24.101(b)(1) through (5) (commonly referred to as "voluntary acquisitions"). As the more recent and specific statutory provision, section 2301(d)(1) of HERA prevails over section 301 of the URA for purposes of NSP-assisted acquisitions of foreclosed-upon homes or residential properties.

NSP Appraisal Requirements. Section 2301(d)(1) of HERA requires an appraisal for purposes of determining the statutory purchase discount. This appraisal requirement applies to any NSP-assisted acquisition of a foreclosed-upon home or residential property (including voluntary acquisitions). As noted above, section 301 of the URA does not apply to voluntary acquisitions.

While the URA and its regulations do not require appraisals for such acquisitions, the URA acquisition policies do not prohibit acquiring agencies from obtaining appraisals. Appendix A, 49 CFR 24.101(b)(1)(iv) and (2)(ii), acknowledges that acquiring agencies may still obtain an appraisal to support their determination of fair market value

One-for-One Replacement. HUD is providing an alternative requirement to the one-for-one replacement requirements set forth in 42 U.S.C. 5304(d)(2), as implemented at 24 CFR 42.375. The Department anticipates a large number of requests from grantees for whom the requirements will be onerous given the pressing rush to implement NSP, and several of the major housing markets affected by the foreclosure crisis have a surplus of abandoned and foreclosed-upon residential properties. The additional workload of reviewing requests under 42 U.S.C. 5304(d)(3) and 24 CFR 42.375(d) could cause a substantial backlog at HUD and delay NSP program operations. Therefore, the alternative requirement is that an NSP grantee is not required to meet the requirements of 42 U.S.C. 5304(d), as implemented at 24 CFR 42.375, to provide one-for-one replacement of low- and moderate-income dwelling units demolished or converted in connection with activities assisted with NSP funds. Alternatively, each grantee must submit the information described below relating to its demolition and conversion activities in its action plan substantial amendment or abbreviated plan. The grantee will report to HUD and citizens (via prominent posting of the DRGR reports on the grantee’s official Internet site) on progress related to these measures until the closeout of its grant with HUD. HUD reminds grantees to be aware of the requirement to have and follow a residential antidisplacement and relocation plan for the CDBG and HOME programs. This requirement is not waived for those programs and continues to apply to activities assisted with regular CDBG and HOME funds.

Relocation Assistance. HUD is not waiving or specifying alternative requirements to the

URA's relocation provisions. Those requirements that do not conflict with HERA continue to apply. HUD is <u>not</u> specifying alternative requirements to the relocation assistance provisions at 42 U.S.C. 5304(d). Guidance on meeting these requirements is available on the HUD website and through local HUD field offices. HUD urges grantees to consider URA requirements in designing their programs and to remember that there are URA obligations related to voluntary and involuntary property acquisition activities, even for vacant and abandoned property.

Tenant Protections. The Recovery Act included tenant protections applicable to NSP grants. First, the Recovery Act included a provision applicable to any foreclosed upon dwelling or residential real property that was acquired by the initial successor in interest pursuant to the foreclosure after February 17, 2009 and was occupied by a *bona fide* tenant at the time of foreclosure. The use of NSP funds for acquisition of such property is subject to a determination by the grantee that the initial successor in interest complied with these requirements. Second, NSP grantees may not refuse to lease a dwelling unit in housing with such loan or grant to a participant under section 8 of the United States Housing Act of 1937 (42 U.S.C 1437f) because of the status of the prospective tenant as such a participant.

<u>Requirements</u>

One for One Replacement Requirements.

1. The one-for-one replacement requirements at 24 CFR 570.488, 570.606(c), and 42.375 are waived for low- and moderate-income dwelling units demolished or converted in connection with an activity assisted with NSP funds. As an alternative requirement to 42 U.S.C. 5304(d)(2)(A)(i) and (ii), each grantee planning to demolish or convert any low- and moderate-income dwelling units as a result of NSP-assisted activities must identify all of the following information in its NSP substantial amendment or abbreviated plan:

(a) the number of low- and moderate-income dwelling units reasonably expected to be demolished or converted as a direct result of NSP-assisted activities;

(b) the number of NSP affordable housing units (made available to low- , moderate-, and middle-income households) reasonably expected to be produced, by activity and income level as provided for in DRGR, by each NSP activity providing such housing (including a proposed time schedule for commencement and completion); and

(c) the number of dwelling units reasonably expected to be made available for households whose income does not exceed 50 percent of area median income.

The grantee must also report on actual performance for demolitions and production, as required elsewhere in this notice.

Tenant Protections.

2. The following requirements apply to any foreclosed upon dwelling or residential real property that was acquired by the initial successor in interest pursuant to the foreclosure after February 17, 2009 and was occupied by a *bona fide* tenant at the time of foreclosure. The use of NSP funds for acquisition of such property is subject to a determination by the grantee that the initial successor in interest complied with these requirements.

a. The initial successor in interest in a foreclosed upon dwelling or residential real property shall provide a notice to vacate to any *bona fide* tenant at least 90 days before the effective date of such notice. The initial successor in interest shall assume such interest subject to the rights of any *bona fide* tenant, as of the date of such notice of foreclosure: (i) under any *bona fide* lease entered into before the date of notice of foreclosure to occupy the premises until the end of the remaining term of the lease, except that a successor in interest may terminate a lease effective on the date of sale of the unit to a purchaser who will occupy the unit as a primary residence, subject to the receipt by the tenant of the 90-day notice under this paragraph; or (ii) without a lease or with a lease terminable at will under State law, subject to the receipt by the tenant of the 90-day notice under this paragraph, except that nothing in this section shall affect the requirements for termination of any Federal- or State-subsidized tenancy or of any State or local law that provides longer time periods or other additional protections for tenants.

b.i. In the case of any qualified foreclosed housing in which a recipient of assistance under section 8 of the United States Housing Act of 1937 (42 U.S.C 1437f) (the "Section 8 Program") resides at the time of foreclosure, the initial successor in interest shall be subject to the lease and to the housing assistance payments contract for the occupied unit.

ii. Vacating the property prior to sale shall not constitute good cause for termination of the tenancy unless the property is unmarketable while occupied or unless the owner or subsequent purchaser desires the unit for personal or family use.

iii. If a public housing agency is unable to make payments under the contract to the immediate successor in interest after foreclosure, due to (A) an action or inaction by the successor in interest, including the rejection of payments or the failure of the successor to maintain the unit in compliance with the Section 8 Program or (B) an inability to identify the successor, the agency may use funds that would have been used to pay the rental amount on behalf of the family—(1) to pay for utilities that are the responsibility of the owner under the lease or applicable law, after taking reasonable steps to notify the owner that it intends to make payments to a utility provider in lieu of payments to the owner, except prior notification shall not be required in any case in which the unit will be or has been rendered uninhabitable due to the termination or threat of termination of service, in which case the public housing agency shall notify the owner within a reasonable time after making such payment; or (2) for the family's reasonable moving costs, including security deposit costs.

c. For purposes of this section, a lease or tenancy shall be considered *bona fide* only if: (i) the mortgagor under the contract is not the tenant; (ii) the lease or tenancy was the result of an arm's length transaction; and (iii) the lease or tenancy requires the receipt of rent that is not substantially less than fair market rent for the property. See Section II.A for the definition of date of notice of foreclosure.

d. The grantee shall maintain documentation of its efforts to ensure that the initial successor in interest in a foreclosed upon dwelling or residential real property has complied with the requirements under section K.2.a. and K.2.b. If the grantee determines that the initial successor in interest in such property failed to comply with such requirements, it may not use NSP funds to finance the acquisition of such property unless it assumes the obligations of the initial successor in interest specified in section K.2.a. and K.2.b.

e. Grantees must provide the relocation assistance required pursuant to 24 CFR 570.606 to tenants displaced as a result of an NSP-assisted activity and maintain records in sufficient detail to demonstrate compliance with the provisions of that section. For purposes of clarification, grantees need to be aware that the NSP tenant protection requirements under the Recovery Act are separate and apart from the obligations imposed on grantees by the URA. The URA applies to any person displaced as a direct result of acquisition, rehabilitation, and/or demolition of real property for a federally-assisted project. Eligibility determinations under the URA and the required notices and relocation assistance requirements are separate and distinct from the NSP tenant protections in the Recovery Act. Grantees cannot assume that a person entitled to the NSP tenant protections under the Recovery Act is also eligible for assistance under the URA (or vice versa). Any tenant lawfully occupying the property evicted by the owner/mortgagor in order to facilitate an acquisition under the NSP program (including short sales) is most likely eligible for URA relocation assistance and payments as a displaced person.

3. The grantee of any grant or loan made from NSP funds may not refuse to lease a dwelling unit in housing with such loan or grant to a participant under the Section 8 Program because of the status of the prospective tenant as such a participant.

4. This section shall not preempt any Federal, State or local law that provides more protections for tenants.

L. Note on eminent domain

Although section 2303 of HERA appears to allow some use of eminent domain for public purposes, HUD cautions grantees that HERA section 2301(d)(1) may effectively ensure that all NSP-assisted property acquisitions must be voluntary acquisitions as the term is defined by the URA and its implementing regulations. Section 2301(d)(1) of HERA directs that any purchase of a foreclosed-upon home or residential property under NSP be at a discount from the current market appraised value of the home or residential property and that such discount shall ensure that purchasers are paying below-market value for the home or property. However, the Fifth Amendment to the U.S. Constitution provides that private property shall not be taken for public use without just compensation. The Supreme Court has ruled that a jurisdiction must pay fair market value for the purchase of property through eminent domain. A grantee contemplating using NSP funds to assist an acquisition involving an eminent domain action is advised to consult appropriate legal counsel before taking action.

M. Timeliness of use and expenditure of NSP funds

<u>Background</u>

One of the most critical NSP1 provisions is the HERA requirement at section 2301(c)(1) that any grantee receiving a grant:

> "…shall, not later than 18 months after the receipt of such amounts, use such amounts to purchase and redevelop abandoned and foreclosed homes and residential properties."

HUD has defined the term "use" in this notice to include obligation of funds.

A further complication is that HERA clearly expects grantees to earn program income under this grant program. As provided under 24 CFR 85.21, entitlements grantees and subrecipients shall disburse program income before requesting additional cash withdrawals from the U.S. Treasury. States are governed similarly by 24 CFR 570.489(e)(3) and 31 CFR part 205. This requirement is reflected in the regulations governing use of program income by states and units of general local government under the CDBG program. This means that a grantee that successfully and quickly deploys its program and generates program income may obligate, draw down, and expend an amount equal to its NSP1 allocation amount, and still have funds remaining in its line of credit, possibly subject to recapture at the 18-month deadline.

On consideration, the Department chose to implement the NSP1 use test based on whether the state or unit of general local government has expended or obligated the NSP1 grant funds and program income in an aggregate amount at least equal to the NSP1 allocation. HUD also imposed a deadline for expending NSP1 grant funds because the intent of these grants clearly is to quickly address an emergency situation in areas of the greatest need.

NSP2 and NSP3 grants follow the statutory expenditure deadlines described under the Recovery Act, which provides that grantees:

> "shall expend at least 50 percent of allocated funds within 2 years of the date funds become available to the [recipient] for obligation, and 100 percent of such funds within 3

years of such date."

NSP2 and NSP3 expenditure timelines are tighter than under NSP1. In the NSP2 NOFA, HUD required NSP2 grantees to expend their entire grant, including program income, within the statutory timeframes. Upon reflection, HUD has determined that the better interpretation would be similar to the NSP1 requirement that requires the expenditure of grant funds and program income in an aggregate amount at least equal to the NSP2 or NSP3 allocation. HUD is therefore including a revision to the NSP2 NOFA program requirements in this Notice. If any NSP grantee fails to meet the requirement to expend an amount equal to its grant within the relevant timelines, HUD, on the first business day after that deadline, will notify the grantee and restrict the amount of unused funds in the grantee's line of credit. HUD will allow the grantee 30 days to submit information to HUD regarding any additional expenditure of funds not already recorded in DRGR. Then HUD may proceed to recapture the unused funds or provide for other corrective action(s) or sanction.

Requirements

1. Timely use of NSP1 funds. At the end of the statutory 18-month use period, which begins when the NSP grantee receives its funds from HUD, the state or unit of general local government NSP grantee's accounting records and DRGR information must reflect outlays (expenditures) and unliquidated obligations for approved activities that, in the aggregate, are at least equal to the NSP allocation. (The DRGR system collects information on expenditures and obligations.) Grantees receiving a reallocation of NSP1 funds must also comply with the 18-month use requirement.

2. Timely expenditure of NSP1 funds. The timely distribution or expenditure requirements of sections 24 CFR 570.494 and 570.902 are waived to the extent necessary to allow the following

alternative requirement: All NSP1 grantees must expend on eligible NSP activities an amount equal to or greater than the initial allocation of NSP1 funds within 4 years of receipt of those funds or HUD will recapture and reallocate the amount of funds not expended.

3. Timely expenditure of NSP2 and NSP3 funds. The timely distribution or expenditure requirements of sections 24 CFR 570.494 and 570.902 are waived to the extent necessary to allow the following alternative requirement: NSP2 and NSP3 grantees must expend on eligible NSP activities an amount equal to or greater than the 50 percent of the initial allocation of NSP funds within 2 years of receipt of those funds and 100 percent of the initial allocation of NSP funds within 3 years of receipt of those funds or HUD will recapture and reallocate the amount of funds not expended or provide for other corrective action(s) or sanction. A grantee will be deemed by HUD to have received its NSP grant at the time HUD signs its NSP grant agreement.

N. Alternative requirement for program income (revenue) generated by activities assisted with grant funds

Requirement

1. Revenue (i.e., gross income) received by a state, unit of general local government, or subrecipient (as defined at 24 CFR 570.500(c)) that is directly generated from the use of CDBG funds (which term includes NSP grant funds) constitutes CDBG program income. To ensure consistency of treatment of such program income, the definition of program income at 24 CFR 570.500(a) shall be applied to amounts received by states, units of general local government, and subrecipients.

2. Cash management. Substantially all program income must be disbursed for eligible NSP activities before additional cash withdrawals are made from the U.S. Treasury.

3. Agreements with subrecipients. States and units of general local government must incorporate

in subrecipient agreements such provisions as are necessary to ensure compliance with the requirements of this section.

O. Reporting

Background

HUD is requiring regular reporting on each NSP grant in the DRGR system to ensure the Department has sufficient management information to follow-up promptly if a grantee lags in implementation and risks recapture of its grant funds. For NSP, HUD is waiving the annual reporting requirements of the consolidated plan to allow HUD to collect more regular information on various aspects of the uses of funds and of the activities funded with these grants. HUD will use the reports to exercise oversight for compliance with the requirements of this notice and for prevention of fraud, waste, and abuse of funds.

The regular CDBG performance measurement requirements will not apply to the NSP funds. HUD has configured DRGR performance measures to fit the NSP activities and will provide additional guidance on NSP performance measures.

To collect these data elements and to meet its reporting requirements, HUD is requiring each grantee to report on its NSP funds to HUD using the online DRGR system, which uses a streamlined, Internet-based format. HUD will use grantee reports to monitor for anomalies or performance problems that suggest fraud, waste, and abuse of funds; to reconcile budgets, obligations, fund draws, and expenditures; to calculate applicable administrative and public service limitations and the overall percent of benefit to LMMI persons; and as a basis for risk analysis in determining a monitoring plan.

The grantee must post the NSP report on a website for its citizens when it submits the report to HUD (DRGR generates a version of the report that the grantee can download, save, and post).

The Office of Management and Budget has established October 1, 2010 as the deadline for federal agencies to initiate sub-award reporting in compliance with the Federal Funding Accountability and Transparency Act (Pub.L.109-282) (FFATA). NSP3 grantees will be required to comply with this additional reporting requirement. Additional HUD guidance on compliance with the FFATA requirements is forthcoming.

Requirements

1. Performance report alternative requirement. The Secretary may specify the form and timing of reports provided by the grantee under both 42 U.S.C. 5304(e) (the HCD Act) and 42 U.S.C. 12708 (NAHA). Therefore, the consolidated plan regulation at 24 CFR 91.520 is waived and the alternative reporting form and timing for the NSP funds is that:

a. Each grantee must enter its NSP Action Plan amendment or abbreviated plan into HUD's web-based DRGR system in sufficient detail to meet the NSP action plan content requirements of this notice and to serve as the basis for acceptable performance reports.

b. Each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the grant. In addition to this quarterly performance reporting, beginning three months prior to its use or expenditure deadline, as applicable, each grantee will report monthly on its NSP use and expenditure of funds, and continuing monthly until reported total uses or expenditure of funds are equal to or greater than the total NSP grant or the deadline occurs. After HUD has accepted a report from a grantee showing such use or expenditure of funds, the monthly reporting requirement will end. Quarterly reports will continue until all NSP funds (including program income) have been expended and those expenditures are included in a report to HUD, or until HUD issues other instructions. Each report will include information about the uses of funds, including, but not limited to, the project name, activity, location, national objective, funds budgeted and expended, the funding source and total amount of any non-NSP funds, numbers of properties and housing units, beginning and ending dates of activities, beneficiary characteristics, and numbers of low- and moderate-income persons or households benefiting. Reports must be submitted using HUD's web-based DRGR system and, at the time of submission, be posted prominently on the grantee's official website.

c. Additional reporting requirements consistent with the Federal Funding Accountability and Transparency Act will be required for NSP3 Grantees. HUD guidance on these requirements is forthcoming.

P. FHA First Look Program

The Department notes that it is an eligible use of NSP grant funds to acquire and redevelop FHA foreclosed properties. The Federal Housing Administration's (FHA) First Look sales method provides NSP grantees exclusive access to review and purchase newly conveyed FHA real estate-owned (REO) properties that are located in their designated areas. Grantees will have the opportunity to make a purchase offer on a property prior to it being made available to other entities. NSP grantees can purchase these properties at up to a 10% discount from the appraised value. Further information about First Look was published in the Federal Register on July 15, 2010 (75 FR 41225), and is also available online at: http://edocket.access.gpo.gov/2010/pdf/2010-17335.pdf.

HUD will provide technical assistance on its website regarding how these programs can effectively interact. Grantees may also contact their local HUD FHA field office for further information.

Q. Purchase discount

Background

HERA Section 2301(d)(1) limits the purchase price of a foreclosed home or residential property, as follows:

> "Any purchase of a foreclosed upon home or residential property under this section shall be at a discount from the current market appraised value of the home or property, taking into account its current condition, and such discount shall ensure that purchasers are paying below-market value for the home or property."

To ensure that uncertainty over the meaning of this section does not delay program implementation, HUD is defining "current market appraised value" in this notice. For mortgagee foreclosed properties, HUD is requiring that grantees seek to obtain the "maximum reasonable discount" from the mortgagee, taking into consideration likely "carrying costs" of the mortgagee if it were to not sell the property to the grantee or subrecipient. HUD has adopted an approach that requires a minimum discount of one percent for each foreclosed upon home or residential property purchased with NSP funds.

Requirements

1. Individual purchase transaction. Each foreclosed-upon home or residential property shall be purchased at a discount of at least one percent from the current market-appraised value of the home or property.

2. An NSP grantee may not provide NSP funds to another party to finance an acquisition of tax foreclosed (or any other) properties from itself, other than to pay necessary and reasonable costs

related to the appraisal and transfer of title. If NSP funds are used to pay such costs when property owned by the grantee is conveyed to a subrecipient, homebuyer, developer, or other jurisdiction, the property is NSP-assisted and subject to all program requirements, such as requirements for NSP-eligible use and benefit to income-qualified persons. This section does not preclude payment of tax liens on property that is not owned by the grantee or payment of current taxes while the property is being redeveloped or held in a land bank.

3. The address, appraised value, purchase offer amount, and discount amount of each property purchase must be documented in the grantee's program records. The address of each acquired property must be recorded in DRGR.

R. Removal of annual requirements

Requirement

Throughout 24 CFR parts 91 and 570, all references to "annual" requirements such as submission of plans and reports are waived to the extent necessary to allow the provisions of this notice to apply to NSP funds, with no recurring annual requirements other than those related to civil rights and fair housing certifications and requirements.

S. Affirmatively furthering fair housing

Nothing in this notice may be construed as affecting each grantee's responsibility to carry out its certification to affirmatively further fair housing. HUD encourages each grantee to review its analysis of impediments to fair housing choice to determine whether an update is necessary because of current market conditions or other factors. Non-entitlement local government grantees must affirmatively further fair housing by adopting and following procedures and requirements to affirmatively market NSP3-assisted housing opportunities. This means that they will affirmatively market NSP3 assisted units and carry out NSP3 activities that further fair housing through innovative housing design or construction to increase access for persons with disabilities, language assistance services to persons with limited English proficiency (on the basis of national origin), or location of new or rehabilitated housing in a manner that provides greater housing choice or mobility for persons in classes protected by the Fair Housing Act, and maintain records reflecting the actions in this regard.

T. Certifications

<u>Background</u>

HUD is substituting alternative certifications. The alternative certifications are tailored to NSP3 grants and remove certifications and references that are appropriate only to the annual CDBG formula program. NSP1 and NSP2 certifications have already been submitted to HUD in accordance with the requirements of the NSP1 Notice and the NSP2 NOFA.

<u>Requirements</u>

1. Certifications for states and for entitlement communities, alternative requirement. Although the NSP3 is being implemented as a substantial amendment to the current annual action plan, HUD is requiring submission of this alternative set of certifications as a conforming change, reflecting alternative requirements and waivers under this notice. Each jurisdiction will submit the following certifications:

1. Affirmatively furthering fair housing. The jurisdiction certifies that it will affirmatively further fair housing, which means that it will conduct an analysis to identify impediments to fair housing choice within the jurisdiction, take appropriate actions to overcome the effects of any impediments identified through that analysis, and maintain records reflecting the analysis and actions in this regard.

2. Anti-displacement and relocation plan. The applicant certifies that it has in effect and is following a residential anti-displacement and relocation assistance plan.

3. Anti-lobbying. The jurisdiction must submit a certification with regard to compliance with restrictions on lobbying required by 24 CFR part 87, together with disclosure forms, if required by that part.

4. Authority of jurisdiction. The jurisdiction certifies that the consolidated plan or abbreviated plan, as applicable, is authorized under state and local law (as applicable) and that the jurisdiction possesses the legal authority to carry out the programs for which it is seeking funding, in accordance with applicable HUD regulations and other program requirements.

5. Consistency with plan. The jurisdiction certifies that the housing activities to be undertaken with NSP funds are consistent with its consolidated plan or abbreviated plan, as applicable.

6. Acquisition and relocation. The jurisdiction certifies that it will comply with the acquisition and relocation requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (42 U.S.C. 4601), and implementing regulations at 49 CFR part 24, except as those provisions are modified by the notice for the NSP program published by HUD.

7. Section 3. The jurisdiction certifies that it will comply with section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u), and implementing regulations at 24 CFR part 135.

8. Citizen participation. The jurisdiction certifies that it is in full compliance and following a detailed citizen participation plan that satisfies the requirements of Sections 24 CFR 91.105 or 91.115, as modified by NSP requirements.

9. Following a plan. The jurisdiction certifies it is following a current consolidated plan (or

Comprehensive Housing Affordability Strategy) that has been approved by HUD. [Only States and entitlement jurisdictions use this certification.]

10. Use of funds. The jurisdiction certifies that it will comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act and Title XII of Division A of the American Recovery and Reinvestment Act of 2009 by spending 50 percent of its grant funds within 2 years, and spending 100 percent within 3 years, of receipt of the grant.

11. The jurisdiction certifies:

a. that all of the NSP funds made available to it will be used with respect to individuals and families whose incomes do not exceed 120 percent of area median income; and

b. The jurisdiction will not attempt to recover any capital costs of public improvements assisted with CDBG funds, including Section 108 loan guaranteed funds, by assessing any amount against properties owned and occupied by persons of low- and moderate-income, including any fee charged or assessment made as a condition of obtaining access to such public improvements. However, if NSP funds are used to pay the proportion of a fee or assessment attributable to the capital costs of public improvements (assisted in part with NSP funds) financed from other revenue sources, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than CDBG funds. In addition, with respect to properties owned and occupied by moderate-income (but not low-income) families, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than NSP funds if the jurisdiction certifies that it lacks NSP or CDBG funds to cover the assessment.

12. Excessive force. The jurisdiction certifies that it has adopted and is enforcing:

a. A policy prohibiting the use of excessive force by law enforcement agencies within its jurisdiction against any individuals engaged in nonviolent civil rights demonstrations; and

b. A policy of enforcing applicable state and local laws against physically barring entrance to, or exit from, a facility or location that is the subject of such nonviolent civil rights demonstrations within its jurisdiction.

13. Compliance with anti-discrimination laws. The jurisdiction certifies that the NSP grant will be conducted and administered in conformity with Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), the Fair Housing Act (42 U.S.C. 3601-3619), and implementing regulations.

14. Compliance with lead-based paint procedures. The jurisdiction certifies that its activities concerning lead-based paint will comply with the requirements of part 35, subparts A, B, J, K, and R of this title.

15. Compliance with laws. The jurisdiction certifies that it will comply with applicable laws.

2. Certifications for Non-Entitlement Local Governments, alternative requirement.

For non-entitlement local government grantees that do not have annual action plans to amend, NSP3 is being implemented through the submission of an abbreviated plan under 25 CFR 91.235. HUD is requiring submission of this alternative set of certifications as a conforming change, reflecting alternative requirements and waivers under this notice. Each jurisdiction will submit the following certifications:

1. Affirmatively furthering fair housing. The jurisdiction certifies that it will affirmatively further fair housing.

2. Anti-displacement and relocation plan. The applicant certifies that it has in effect and is following a residential anti-displacement and relocation assistance plan.

3. Anti-lobbying. The jurisdiction must submit a certification with regard to compliance with restrictions on lobbying required by 24 CFR part 87, together with disclosure forms, if required

by that part.

4. Authority of jurisdiction. The jurisdiction certifies that the consolidated plan or abbreviated plan, as applicable, is authorized under state and local law (as applicable) and that the jurisdiction possesses the legal authority to carry out the programs for which it is seeking funding, in accordance with applicable HUD regulations and other program requirements.

5. Consistency with plan. The jurisdiction certifies that the housing activities to be undertaken with NSP funds are consistent with its consolidated plan or abbreviated plan, as applicable.

6. Acquisition and relocation. The jurisdiction certifies that it will comply with the acquisition and relocation requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (42 U.S.C. 4601), and implementing regulations at 49 CFR part 24, except as those provisions are modified by the notice for the NSP program published by HUD.

7. Section 3. The jurisdiction certifies that it will comply with section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u), and implementing regulations at 24 CFR part 135.

8. Citizen participation. The jurisdiction certifies that it is in full compliance and following a detailed citizen participation plan that satisfies the requirements of Sections 24 CFR 91.105 or 91.115, as modified by NSP requirements.

9. Use of funds. The jurisdiction certifies that it will comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act and Title XII of Division A of the American Recovery and Reinvestment Act of 2009 by spending 50 percent of its grant funds within 2 years, and spending 100 percent within 3 years, of receipt of the grant.

10. The jurisdiction certifies:

a. that all of the NSP funds made available to it will be used with respect to individuals and families whose incomes do not exceed 120 percent of area median income; and

b. The jurisdiction will not attempt to recover any capital costs of public improvements assisted with CDBG funds, including Section 108 loan guaranteed funds, by assessing any amount against properties owned and occupied by persons of low- and moderate-income, including any fee charged or assessment made as a condition of obtaining access to such public improvements. However, if NSP funds are used to pay the proportion of a fee or assessment attributable to the capital costs of public improvements (assisted in part with NSP funds) financed from other revenue sources, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than CDBG funds. In addition, with respect to properties owned and occupied by moderate-income (but not low-income) families, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than NSP funds if the jurisdiction certifies that it lacks NSP or CDBG funds to cover the assessment.

11. Excessive force. The jurisdiction certifies that it has adopted and is enforcing:

a. A policy prohibiting the use of excessive force by law enforcement agencies within its jurisdiction against any individuals engaged in nonviolent civil rights demonstrations; and

b. A policy of enforcing applicable state and local laws against physically barring entrance to, or exit from, a facility or location that is the subject of such nonviolent civil rights demonstrations within its jurisdiction.

12. Compliance with anti-discrimination laws. The jurisdiction certifies that the NSP grant will be conducted and administered in conformity with Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), the Fair Housing Act (42 U.S.C. 3601-3619), and implementing regulations.

13. Compliance with lead-based paint procedures. The jurisdiction certifies that its activities concerning lead-based paint will comply with the requirements of part 35, subparts A, B, J, K, and R of this title.

14. Compliance with laws. The jurisdiction certifies that it will comply with applicable laws.

U. Additional NSP3 Requirements— Preferences for Rental Housing and Local Hiring

The NSP3 allocation included statutory language requiring grantees to "establish procedures to create preferences for the development of affordable rental housing for properties assisted with NSP3 funds." HUD is requiring grantees to describe such procedures as part of their substantial amendments or abbreviated plans as described in Section II.B. above.

Grantees also "shall, to the maximum extent feasible, provide for the hiring of employees who reside in the vicinity, as such term is defined by the Secretary, of projects funded under this section or contract with small businesses that are owned and operated by persons residing in the vicinity of such projects." For the purposes of administering this requirement, HUD is adopting the Section 3 applicability thresholds for community development assistance at 24 CFR 135.3(a)(3)(ii). **NOTE:** The NSP3 local hiring requirement does not replace the responsibilities of grantees under Section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u), and implementing regulations at 24 CFR part 135, except to the extent the obligations may be in direct conflict.

For the purposes of NSP3, HUD defines "vicinity" as each neighborhood identified by the NSP3 grantee as being the areas of greatest need. See section II.B.2. Small business means a business that meets the criteria set forth in section 3(a) of the Small Business Act. See 42 U.S.C. 5302(a)(23).

V. Note on statutory limitation on distribution of funds

Section 2304 of HERA and 1479(a)(7)(A) of the Dodd-Frank Act states that none of the funds made available under this Title or title IV shall be distributed to an organization that has been convicted of a violation under federal law relating to an election for federal office; or an organization that employs applicable individuals. Section 1479(a)(7)(B) defines applicable individuals.

W. Information collection approval note

HUD has approval from the Office of Management and Budget (OMB) for information collection requirements in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520). OMB approval is under OMB control number 2506–0165. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor and a person is not required to respond to, a collection of information, unless the collection displays a valid control number.

X. Duration of funding

The appropriation accounting provisions in 31 U.S.C. 1551–1557, added by section 1405 of the National Defense Authorization Act for Fiscal Year 1991 (Pub. L. 101–510), limit the availability of certain appropriations for expenditure. Such a limitation may not be waived. The appropriations acts for NSP1 and NSP3 grants direct that these funds be available until expended.

Catalog of Federal Domestic Assistance

The Catalog of Federal Domestic Assistance numbers for grants made under NSP are as follows: 14.218; 14.225; and 14.228.

Finding of No Significant Impact

A Finding of No Significant Impact with respect to the environment has been made in accordance with HUD regulations at 24 CFR part 50, which implement section 102(2)(C) of the

National Environmental Policy Act of 1969 (42 U.S.C. 4332(C)(2)). The Finding of No Significant Impact is available for public inspection between 8 a.m. and 5 p.m. weekdays in the Office of the Rules Docket Clerk, Office of General Counsel, Department of Housing and Urban Development, 451 Seventh Street, SW, Room 10276, Washington, DC 20410-0500.

Establishment of formula

The funding formula set out in Attachment B to this notice was established by HUD on August 18, 2010.

Dated: OCT 13 2010

Mercedes M. Márquez
Assistant Secretary for Community
Planning and Development

[FR-5447-N-01]

ATTACHMENTS

A –Formula Allocation
B – NSP3 Formula and Allocation of Funds
C – Recommended Green and Sustainable Practices

Attachment A
HUD's Methodology for Allocating the Funds for Neighborhood Stabilization Program 1 (NSP1)

HERA calls for allocating funds "to States and units of general local government with the greatest need, as such need is determined in the discretion of the Secretary based on--

(A) the number and percentage of home foreclosures in each State or unit of general local government;

(B) the number and percentage of homes financed by a subprime mortgage related loan in each State or unit of general local government; and

(C) the number and percentage of homes in default or delinquency in each State or unit of general local government."

It further directs that "each State shall receive not less than 0.5 percent of funds". The allocation formula operates as follows. In this formula, the primary data on foreclosure rates, subprime loan rates, and rates of loans delinquent or in default come from the Mortgage Bankers Association National Delinquency Survey (MBA-NDS). Because the MBA-NDS may have uneven coverage from state-to-state in respect to the total number of mortgages reported, the total count of mortgages is calculated as the number of owner-occupied mortgages from the 2006 American Community Survey increased with data from the Home Mortgage Disclosure Act to capture the proportion of total mortgages made within a state made to investors between 2004 and 2006. The first step of the allocation is to make a "statewide" allocation using the following formula:

Statewide Allocation = \$3.92 billion *

$$\{ [\ 0.70 * \left(\frac{\text{State's number of foreclosure starts in last 6 quarters}}{\text{National number of foreclosure starts in last 6 quarters}}\right) * \left(\frac{\text{Percent of all loans in state to enter foreclosure last 6 quarters}}{\text{Percent of all loans in nation to enter foreclosure last 6 quarters}}\right) +$$

0.15 * (State's number of subprime loans) * (Percent of all loans in state subprime) +

National number of subprime loans   Percent of all loans in nation subprime

0.10 * (State's number of loans in default (90+ days delinquent) * / National number of loans in default) (Percent of all loans in state in default / Percent of all loans in nation in default) +

0.05 * (State's number of loans 60 to 89 days delinquent / National number of loans 60 to 89 days delinquen) * (Percent of all loans in state 60 to 89 days delinquent / National percent of all loans 60 to 89 days delinquent)] *

(Pct of all addresses in state vacant in Census Tracts where more than 40% of the 2004 to 2006 loans were high cost / Pct of all addresses in nation vacant in Census Tracts where more than 40% of the 2004 to 2006 loans were high cost) }

This formula allocates 70 percent of the funds based on the number and percent of foreclosures, 15 percent for subprime loans, 10 percent for loans in default (delinquent 90 days or longer), and 5 percent for loans delinquent 60 to 90 days. The higher weight on foreclosures is based on the emphasis the statute places on targeting foreclosed homes. The percentage adjustments, the rate of a problem in a state relative to the national rate of a problem, are restricted such that a state's allocation based on its proportional share of a problem cannot be increased or decreased by more than 30 percent.

Because HERA specifically indicates that the funds are needed for the "redevelopment of abandoned and foreclosed upon homes and residential properties", HUD has included a variable to proxy where abandonment of homes due to foreclosure is more likely, specifically each state's rate of vacant residential addresses in neighborhoods with a high proportion (more than 40 percent) of loans in 2004 to 2006 that were high cost. Information on vacant addresses is based on United States Postal Service data as of June 30, 2008 aggregated by HUD to the Census Tract level. The residential vacancy adjustment factor reflects a states vacancy rate relative to the national average and cannot increase or decrease as state's proportional share of the allocation based on foreclosures, subprime loans, and delinquencies and defaults by more than 10 percent.

Finally, if a statewide allocation is less than $19.6 million, the statewide grant is increased to $19.6 million. Because this approach will result in a total allocation in excess of appropriation, all grant amounts above $19.6 million are reduced pro-rata to make the total allocation equal to the total appropriation.

From each statewide allocation, a substate allocation is made as follows:

- Each state government is allocated $19.6 million
- If the statewide allocation is more than $19.6 million, the remaining funds are allocated to FY 2008 CDBG entitlement cities, urban counties, and non-entitlement balance of state proportional to relative need.
- If a local government receives less than $2 million under this sub-allocation, their grant is rolled up into the state government grant.

Note that HUD has determined that HERA's direction that a minimum of $19.6 million be allocated to the state means that a minimum grant must be provided to each state government of $19.6 million. As a result, this approach provides state governments with proportionally more funding than their estimated need. As such, state governments should use their best judgment to serve both those areas not receiving a direct grant and those areas that do receive a direct grant, making sure that the total of all funds in the state are going proportionally more to those places (as prescribed by HERA):

- "with the greatest percentage of home foreclosures;
- with the highest percentage of homes financed by a subprime mortgage related loan; and
- identified by the State or unit of general local government as likely to face a significant rise in the rate of home foreclosures."

For the amount of funds above each state's $19.6 million, the remaining funds are allocated among the entitlement communities and non-entitlement balances using the following formula:

Local Allocation = (Statewide allocation - $19,600,000) *

$$\left[\left(\frac{\text{Local estimated number of foreclosure starts in last 6 quarters}}{\text{State total number of foreclosure starts in last 6 quarters}}\right) * \left(\frac{\text{Local vacancy rate in Census Tracts with more than 40\% of the loans High-cost}}{\text{State vacancy rate in Census Tracts with more than 40\% of the loans High-cost}}\right)\right]$$

Where the residential vacancy rate adjustment cannot increase or reduced a local jurisdiction's allocation by more than 30 percent and the estimated number of foreclosures is calculated based on a predicted foreclosure rate times the estimated number of mortgages in a community. HUD analysis shows that 75 percent of the variance between states on foreclosure rates can be explained by three variables available from public data:

- Office of Federal Housing Enterprise Oversight (OFHEO) data on change in home values as of June 2008 compared to peak home value since 2000
- Percent of all loans made between 2004 and 2006 that are high cost as reported in the Home Mortgage Disclosure Act (HMDA).
- Unemployment rate as of June 2008 (from Bureau of Labor Statistics).

Because these three variables are publicly available for all CDBG eligible communities and they are good predictors of foreclosure risk, they are used in a model to calculate the estimated number of foreclosures in each jurisdiction within a state. The formula used is as follows:

Predicted Foreclosure Rate=-2.211

- (0.131*Percent change in MSA OFHEO current price relative to the maximum in past 8 years)

+ (0.152*Percent of total loans made between 2004 and 2006 that are high cost)

+ (0.392*Percent unemployed in the place our county in June 2008).

This predicted foreclosure rate is then multiplied times the estimated number of mortgages within a jurisdiction (number of HMDA loans made between 2004 and 2006 times the ratio of ACS 2006 data on total mortgages in state / HMDA loans in state). This "estimated number of mortgages in the jurisdiction" is further adjusted such that the estimated number of foreclosures from the model will equal the total foreclosure starts in the state from the Mortgage Bankers Association National Delinquency Survey.

As noted above, for entitlement cities and urban counties that would receive an NSP allocation of less than $2 million, the funds are allocated to the state grantee. The District of Columbia and the four Insular Areas receive direct allocations and are not subject to the minimum grant threshold.

Because this funding is one-time funding and the eligible activities under the program are different enough from the regular program, HUD believes that a grantee must receive a minimum amount of $2 million to have adequate staffing to properly administer the program effectively. In addition, fewer grants will allow HUD staff to more effectively monitor grantees to ensure proper implementation of the program and reduce the risk for fraud, waste, and abuse.

ATTACHMENT B

HUD's Methodology for Allocating the Funds for Neighborhood Stabilization Program 3 (NSP3)

Neighborhood Stabilization Program (NSP3) Funding
Under Dodd-Frank Wall Street Reform and Consumer Protection Act

State	Grantee	NSP3 Grant
Alaska	State Of Alaska	$5,000,000
Alabama	State Of Alabama	$5,000,000
	Birmingham	$2,576,151
	Alabama Total	**$7,576,151**
Arkansas	State Of Arkansas	$5,000,000
Arizona	Avondale City	$1,224,903
	State Of Arizona	$5,000,000
	Chandler	$1,332,011
	Glendale	$3,718,377
	Maricopa County	$4,257,346
	Mesa	$4,019,457
	Mohave County	$1,990,744
	Peoria City	$1,198,780
	Phoenix	$16,053,525
	Pinal County	$3,168,315
	Surprise City	$1,329,844
	Tucson	$2,083,771
	Arizona Total	**$45,377,073**
California	Apple Valley	$1,463,014
	Bakersfield	$3,320,927
	State Of California	$7,777,019
	Compton	$1,436,300
	Contra Costa County	$1,871,294
	Corona	$1,317,310
	Fontana	$2,695,735
	Fresno	$3,547,219
	Fresno County	$2,739,766
	Hemet	$1,360,197

	Hesperia	$1,785,047
	Imperial County	$1,708,780
	Indio City	$1,092,071
	Kern County	$5,202,037
	Lancaster	$2,364,566
	Long Beach	$1,567,935
	Los Angeles	$9,875,577
	Los Angeles County	$9,532,569
	Madera County	$1,659,017
	Merced	$1,196,182
	Merced County	$2,705,877
	Modesto	$2,951,549
	Monterey County	$1,284,794
	Moreno Valley	$3,687,789
	Oakland	$2,070,087
	Ontario	$1,872,853
	Orange County	$1,004,948
	Palmdale	$2,310,023
	Perris City	$1,342,449
	Pomona	$1,235,629
	Rialto	$1,936,370
	Richmond	$1,153,172
	Riverside	$3,202,152
	Riverside County	$14,272,400
	Sacramento	$3,762,329
	Sacramento County	$4,595,671
	San Bernardino	$3,277,401
	San Bernardino Count	$10,438,181
	San Joaquin County	$4,398,543
	Santa Ana	$1,464,113
	Solano County	$1,622,757
	Stanislaus County	$4,175,947
	Stockton	$4,280,994
	Tulare County	$2,845,529
	Vallejo	$1,744,593
	Victorville	$2,159,937
	California Total	**$149,308,651**
Colorado	Adams County	$1,997,322
	Aurora	$2,445,282
	State Of Colorado	$5,098,309

	Colorado Springs	$1,420,638
	Denver	$2,700,279
	Greeley	$1,203,745
	Pueblo	$1,460,506
	Weld County	$1,023,188
	Colorado Total	**$17,349,270**
Connecticut	Bridgeport	$1,215,150
	State Of Connecticut	$5,000,000
	Hartford	$1,029,926
	New Haven	$1,041,579
	Waterbury	$1,036,101
	Connecticut Total	**$9,322,756**
District of Columbia	Washington, DC	$5,000,000
Delaware	State Of Delaware	$5,000,000
Florida	Boynton Beach	$1,168,808
	Brevard County	$3,032,850
	Broward County	$5,457,553
	Cape Coral	$3,048,214
	Charlotte County	$2,022,962
	Citrus County	$1,005,084
	Clearwater	$1,385,801
	Collier County	$3,884,165
	Coral Springs	$1,657,845
	Davie	$1,171,166
	Daytona Beach	$1,127,616
	Deerfield Beach	$1,183,897
	Deltona	$1,964,066
	Escambia County	$1,210,487
	State Of Florida	$8,511,111
	Ft Lauderdale	$2,145,921
	Ft Myers	$1,539,941
	Hernando County	$1,953,975
	Hialeah	$2,198,194
	Hillsborough County	$8,083,062
	Hollywood	$2,433,001
	Indian River County	$1,500,428
	Jacksonville-Duval County	$7,102,937

	Kissimmee	$1,042,299
	Lake County	$3,199,585
	Lakeland	$1,303,139
	Lauderhill	$1,500,609
	Lee County	$6,639,174
	Manatee County	$3,321,893
	Margate	$1,148,877
	Marion County	$4,589,714
	Martin County	$1,563,770
	Melbourne	$1,257,986
	Miami	$4,558,939
	Miami Beach	$1,475,088
	Miami Gardens City	$1,940,337
	Miami-Dade County	$20,036,303
	Miramar	$2,321,827
	North Miami	$1,173,374
	Orange County	$11,551,158
	Orlando	$3,095,137
	Osceola County	$3,239,646
	Palm Bay	$1,764,032
	Palm Beach County	$11,264,172
	Palm Coast City	$1,375,071
	Pasco County	$5,185,778
	Pembroke Pines	$2,330,542
	Pinellas County	$4,697,519
	Plantation	$1,216,427
	Polk County	$5,443,116
	Pompano Beach	$1,500,572
	Port St Lucie	$3,515,509
	Sanford	$1,037,697
	Sarasota	$1,038,811
	Sarasota County	$3,949,541
	Seminole County	$3,995,178
	St Petersburg	$3,709,133
	St. Lucie County	$1,947,657
	Sunrise	$1,775,162
	Tamarac	$1,427,857
	Tampa	$4,691,857
	Titusville	$1,005,731
	Volusia County	$3,670,516
	West Palm Beach	$2,147,327

	Florida Total	**$208,437,144**
Georgia	Atlanta	$4,906,758
	Augusta-Richmond County	$1,161,297
	Carroll County	$1,190,390
	Clayton County	$3,796,167
	Cobb County	$2,415,784
	Columbus-Muscogee County	$1,128,174
	Dekalb County	$5,233,105
	Douglas County	$1,628,471
	Fulton County	$3,094,885
	State Of Georgia	$18,679,977
	Gwinnett County	$2,065,581
	Henry County	$1,217,736
	Macon	$1,503,897
	Paulding County	$1,372,214
	Savannah	$1,027,553
	Georgia Total	**$50,421,988**
Hawaii	State Of Hawaii	$5,000,000
Iowa	State Of Iowa	$5,000,000
Idaho	State Of Idaho	$5,000,000
Illinois	Chicago	$15,996,360
	Cook County	$7,776,324
	State Of Illinois	$5,000,000
	Lake County	$1,370,421
	Illinois Total	**$30,143,105**
Indiana	Anderson	$1,219,200
	Elkhart	$1,022,717
	Elkhart County	$1,193,194
	Fort Wayne	$2,374,450
	Gary	$2,717,859
	Hammond	$1,243,934
	State Of Indiana	$8,235,625
	Indianapolis	$8,017,557
	Kokomo	$1,014,327
	Lake County	$1,613,168

	Muncie	$1,148,363
	South Bend	$1,708,707
	Indiana Total	**$31,509,101**
Kansas	Kansas City	$1,137,796
	State Of Kansas	$5,000,000
	Kansas Total	**$6,137,796**
Kentucky	Commonwealth Of Kentucky	$5,000,000
Louisiana	State Of Louisiana	$5,000,000
Massachusetts	Commonwealth Of Massachusetts	$5,000,000
	Springfield	$1,197,000
	Worcester County	$1,190,994
	Massachusetts Total	**$7,387,994**
Maryland	State Of Maryland	$5,000,000
	Prince George's County	$1,802,242
	Maryland Total	**$6,802,242**
Maine	State Of Maine	$5,000,000
Michigan	Dearborn	$1,027,354
	Detroit	$21,922,710
	Flint	$3,076,522
	Genesee County	$2,663,219
	Grand Rapids	$1,378,788
	Jackson County	$1,162,482
	Lansing	$1,162,508
	Macomb County	$2,536,817
	State Of Michigan	$5,000,000
	Muskegon County	$1,071,900
	Oakland County	$2,080,700
	Pontiac	$1,410,621
	Saginaw	$1,242,318
	Southfield	$1,084,254
	St. Clair County	$1,129,355
	Warren	$1,735,633
	Wayne County	$7,839,293

	Michigan Total	**$57,524,473**
Minnesota	Anoka County	$1,226,827
	Hennepin County	$1,469,133
	Minneapolis	$2,671,275
	State Of Minnesota	$5,000,000
	St Paul	$2,059,877
	Minnesota Total	**$12,427,113**
Missouri	Kansas City	$1,823,888
	State Of Missouri	$5,000,000
	St Louis	$3,472,954
	St. Louis County	$2,813,762
	Missouri Total	**$13,110,604**
Mississippi	State Of Mississippi	$5,000,000
Montana	State Of Montana	$5,000,000
North Carolina	State Of North Carolina	$5,000,000
North Dakota	State Of North Dakota	$5,000,000
Nebraska	State Of Nebraska	$5,000,000
	Omaha	$1,183,085
	Nebraska Total	**$6,183,085**
New Hampshire	State Of New Hampshire	$5,000,000
New Jersey	Essex County	$1,851,984
	Newark	$2,018,637
	State Of New Jersey	$5,000,000
	Paterson	$1,196,877
	Union County	$1,574,051
	New Jersey Total	**$11,641,549**
New Mexico	State Of New Mexico	$5,000,000
Nevada	Clark County	$16,156,114
	North Las Vegas	$4,097,147
	Henderson	$3,901,144
	Las Vegas	$10,450,623
	State Of Nevada	$5,000,000

	Reno	$1,973,724
	Washoe County	$1,735,918
	Nevada Total	**$43,314,669**
New York	Islip Town	$1,429,561
	Nassau County	$2,116,070
	New York	$9,787,803
	State Of New York	$5,000,000
	Suffolk County	$1,501,506
	New York Total	**$19,834,940**
Ohio	Akron	$2,674,298
	Butler County	$1,327,123
	Canton	$1,233,756
	Cincinnati	$3,160,661
	Clark County	$1,105,306
	Cleveland	$6,793,290
	Columbus	$4,843,460
	Cuyahoga County	$2,551,533
	Dayton	$3,115,780
	East Cleveland	$1,068,142
	Euclid	$1,031,230
	Hamilton County	$1,469,242
	Lorain County	$1,619,474
	Montgomery County	$1,145,712
	State Of Ohio	$11,795,818
	Richland County	$1,022,278
	Toledo	$3,591,715
	Trumbull County	$1,143,889
	Youngstown	$1,096,328
	Ohio Total	**$51,789,035**
Oklahoma	State Of Oklahoma	$5,000,000
Oregon	State Of Oregon	$5,000,000
Pennsylvania	Commonwealth Of Pennsylvania	$5,000,000
Puerto Rico	Commonwealth Of Puerto Rico	$5,000,000
Rhode Island	Providence	$1,309,231

	State Of Rhode Island	$5,000,000
	Rhode Island Total	**$6,309,231**
South Carolina	State Of South Carolina	$5,615,020
	South Carolina Total	$5,615,020
South Dakota	State Of South Dakota	$5,000,000
Tennessee	Memphis	$5,195,848
	State Of Tennessee	$5,000,000
	Tennessee Total	**$10,195,848**
Texas	Dallas	$2,356,962
	Dallas County	$1,364,426
	Harris County	$1,925,917
	Hidalgo County	$1,716,924
	Houston	$3,389,035
	State Of Texas	$7,284,978
	Texas Total	**$18,038,242**
Utah	State Of Utah	$5,000,000
Virginia	Richmond	$1,254,970
	Commonwealth Of Virginia	$5,000,000
	Virginia Total	**$6,254,970**
Vermont	State Of Vermont	$5,000,000
Washington	State Of Washington	$5,000,000
Wisconsin	Milwaukee	$2,687,949
	State Of Wisconsin	$5,000,000
	Wisconsin Total	**$7,687,949**
West Virginia	State Of West Virginia	$5,000,000
Wyoming	State Of Wyoming	$5,000,000
Insular Areas		$300,000
	TOTAL	**$970,000,000**

Overview

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provided an additional $1 billion for the Neighborhood Stabilization Program (NSP) that was originally established under the Housing and Economic Recovery Act of 2008.

The statute calls for allocating funds to States and local governments with the greatest need, as determined by:

(A) "The number and percentage of home foreclosures in each State or unit of general local government;
(B) "The number and percentage of homes financed by a subprime mortgages in each State or unit of general local government; and
(C) "The number and percentage of homes in default or delinquency in each State or unit of general local government."

The statute also requires that a minimum of 0.5 percent of the appropriation, $5 million be provided to each state.

The Department has determined that for NSP3, the states and local governments with the greatest need for neighborhood stabilization funding are those communities that have high numbers of foreclosed and/or vacant properties in the neighborhoods with the highest concentrations of foreclosures, delinquent loans, and subprime loans. The basic formula allocates funds based on the number of foreclosures and vacancies in the 20 percent of US neighborhoods (Census Tracts) with the highest rates of homes financed by a subprime mortgage, are delinquent, or are in foreclosure. This basic allocation is adjusted to ensure that every state receives a minimum of $5 million. The net result is that these funds are highly targeted to communities with the most severe neighborhood problems associated with the foreclosure crisis.

Estimating Greatest Need

To target the funds to States and local communities with the greatest need, HUD estimated the number of loans 90 days delinquent or in foreclosure for each Census Tract in America. This estimate was based on a model that was comprised of three factors that explain most foreclosures and delinquent loans (see note 1):

- Rate of Subprime Loans. This is measured with HMDA data on high cost and high leverage loans made between 2004 and 2007. These data are available at the Census Tract (neighborhood) level.

- Increase in Unemployment Rate between March 2005 and March 2010. These data are from the BLS Local Area Unemployment Statistics, at the city and county level.

- Fall in Home Value from Peak to Trough. Home value data at the Metropolitan Area level is available quarterly through March 2010 from the Federal Housing Finance Agency Home Price Index.

In addition to wanting to capture loans that are currently delinquent or in the foreclosure process, HUD sought to capture the aggregate impact of the foreclosure crisis on individual neighborhoods between 2007 and 2010. To do this, HUD estimated for each neighborhood the number of foreclosure starts between January 2007 and March 2010 as well as the number of foreclosure completions between January 2007 and June 2010 (see note 2). Each neighborhood was assigned the larger of the two estimates.

Finally, HUD has administrative data from the United States Postal Service on addresses not picking up mail for 90 days or longer. These data are very good current indicators of neighborhood stress from vacant housing. This number is adjusted using Census 2000 tract level data to remove vacant vacation properties from the count.

The Formula

Using the estimated rate of loans in foreclosure or delinquent, HUD identified the 20 percent of neighborhoods likely to be most distressed. This equates to an estimated serious delinquency rate (90 days delinquent or in foreclosure) of greater than 17.8 percent. Using the methodology described above, the national rate was estimated at 8.9 percent.[1]

For each place and balance of county in the United States we add up only from the 20 percent of neighborhoods with the greatest need the number of foreclosed homes between 2007 and 2010 and separately the number units 90 days or more vacant in March 2010.

This “jurisdiction level” file is then used to run a formula to allocate the funds available, $969,700,000. Sixty percent of these funds are allocated based on each jurisdiction’s share of foreclosures and 40 percent of the funds are allocated based on each jurisdiction’s share of vacancies.

Minimum Grant Threshold

If a place gets less than HUD’s established minimum grant threshold of $1 million, its grant is rolled up into the county grant. If the county grant is less than the minimum grant threshold of $1 million, its grant is rolled up into the state grant.

State Minimum Grant of $5 million

For any state government that would receive less than $5 million, its grant is increased to $5 million with all grant amounts above the minimum grant threshold reduced on a pro-rata basis to only allocate the amounts available.

Note 1: Identifying Census Tracts with High Rates of Foreclosures, Delinquencies, and

[1] This less than the Mortgage Bankers Association National Delinquency Survey rate of 9.54 percent for March 2010 and slightly more than the McDash Analytics rate of 8.39 percent as of July 2010).

Subprime Loans

To estimate which neighborhoods are likely to have high rates of foreclosures, delinquencies, and subprime loans, HUD used a July 2010 extract of county level serious delinquency rates from McDash Analytics to develop a predictive model using public data that was available for every Census Tract in the United States. The predictive model, which was weighted on number of mortgages in each county, was able to predict most of the variance between counties in their serious delinquency rate (R-square of 0.821). The model used is as follows:

0.523 (intercept)
+0.476 Unemployment Change 3/2005 to 3/2010 (BLS LAUS)
-0.176 Rate of low cost high leverage loans 2004 to 2007 (HMDA)
+0.521 Rate of high cost high leverage loans 20o4 to 2007 (HMDA)
+0.090 Rate of high cost low leverage loans 2004 to 2007 (HMDA)
-0.188 Fall in Home Value Since Peak (FHFA Metro and Non-Metro Area)

The predictive rate of seriously delinquent mortgages was multiplied times the number of loans made between 2004 and 2007 in a Census Tract to estimate the number of seriously delinquent loans in a Census Tract.

Note 2: Calculating Number of Foreclosures at the Neighborhood Level

To estimate the number of homes in a neighborhood that have completed, or are at risk of becoming Real Estate Owned in a Census Tract, was done by allocating the statewide total of the greater of the sum of all foreclosure completions between January 2007 and June 2010 (from RealtyTrac) or the sum of all foreclosure starts between January 2007 and March 2010 (from the Mortgage Bankers Association) based on each Tracts share of a states estimated number of seriously delinquent loans. The estimated number of seriously delinquent loans was calculated by multiplying the estimated rate of seriously delinquent loans times the number of mortgages made between 2004 and 2007 (from Home Mortgage Disclosure Act data).

Attachment C

NSP Recommended Energy Efficient and Environmentally-Friendly Green Elements

HUD strongly recommends that your proposed NSP3 program incorporate the following energy efficient and environmentally-friendly Green elements. No specific element is required. HUD encourages thoughtful, achievable consideration and implementation of energy efficient and environmentally friendly elements inside your NSP3 program.

HUD is providing the guidance below because the Department has become aware during the implementation of NSP1 that many grantees are not aware that many of their common community development practices, such as trying to help police and teachers live in the neighborhood in which they work, are also considered sustainable and environmentally friendly. Similarly, most affordable housing units are also smaller and can easily be made more energy efficient than larger units. The increased energy efficiency then serves to increase the long-term affordability of the units.

Transit accessibility.
Select NSP target areas that are transit accessible, for example those that are in a census tract with convenient bus service (local bus service every 20 minutes during rush hour or an express commuter bus); or bordering a census tract with a passenger rail stop or station (including, for example, commuter rail, subway, light rail, and streetcars).

Green building standards.
Comply with the required NSP rehabilitation standards and also fund new construction and gut rehabilitation activities that will exceed the Energy Star for New Homes standard. Ensure that moderate rehabilitation or energy retrofits will purchase only Energy Star products and appliances. You may go further and require NSP homes to achieve an established environmental or energy efficiency standard such as Green Communities or equivalent.

Re-Use cleared sites.
Re-use cleared sites in accordance with a comprehensive or neighborhood plan. Plan to re-use all demolition sites within the term of your NSP grant as replacement housing, for use as a community resource, or to provide an environmental function. Examples include community gardens, pocket parks, or floodplain impoundment areas.

Deconstruction.
Deconstruction means salvaging and re-using materials resulting from demolition activities. It recycles building materials, and provides employment.

Renewable Energy
1. *Passive Solar.* Orient the building to make the greatest use of passive solar heating and cooling.
2. *Photovoltaic-ready*. Site, design, engineer and wire the development to accommodate installation of photovoltaic panels in the future.

Sustainable Site Design

1. *Transportation Choices*. Locate projects within a one-quarter mile of at least two, or one-half mile of at least four community and retail facilities.
2. *Connections to Surrounding Neighborhoods*. Provide three separate connections from the development to sidewalks or pathways in surrounding neighborhoods.
3. *Protecting Environmental Resources*. Do not locate the project within 100 feet of wetlands; 1,000 feet of a critical habitat; or on steep slopes, prime farmland or park land.
4. *Erosion and Sediment Control.* Implement EPA's Best Management Practices for erosion and sedimentation control during construction.
5. *Sustainable Landscaping.* Select native trees and plants that are appropriate to the site's soils and microclimate.
6. *Energy Efficient Landscaping.* Locate trees and plants to provide shading in the summer and allow for heat gain in the winter.

Water Conservation

1. *Efficient Irrigation*. Install low volume, non-spray irrigation system (such as drip irrigation, bubblers, or soaker hose).

Energy Efficient Materials

1. *Durable Materials.* Use materials that last longer than conventional counterparts such as stone, brick or concrete.
2. *Resource Efficient Materials.* Use layouts and advanced building techniques that reduce the amount of homebuilding material required.
3. *Heat Absorbing Materials*. Use materials that retain solar heat in winter and remain cool in summer.
4. *Solar-reflective Paving.* Use light-colored/high-albedo materials and/or open-grid pavement with a minimum Solar Reflective index of 0.6 over at least 30 percent of the site's hardscaped areas.
5. *Local Source Materials.* Use materials from local sources that are close to the job site.
6. *Green Roofing.* Use Energy Star-compliant and high-emissive roofing, and/or install a Green (vegetated) roof for at least 50 percent of the roof area; or a combination of high-albedo and vegetated roof covering 75 percent of the roof area.

Healthy Homes

1. *Green Label Certified Floor Covering.* Do not install carpets in basements, entryways, laundry rooms, bathrooms or kitchens; if using carpet, use the Carpet and Rug Institute's Green Label certified carpet and pad.
2. *Healthy Flooring Materials: Alternatives.* Use non-vinyl, non-carpet floor coverings in all rooms.
3. *Healthy Flooring Materials: Reducing Dust*. Install a whole-house vacuum system with high-efficiency particulate air filtration.
4. *Sealing Joints*. Seal all wall, floor and joint penetrations to prevent pest entry; provide rodent and corrosion proof screens (e.g., copper or stainless steel mesh) for large openings.
5. *Termite-resistant Materials.* Use termite-resistant materials in areas known to be infested.
6. *Tub and shower Enclosures: Moisture Prevention.* Use one-piece fiberglass or similar enclosure or, if using any form of grouted material, use backing materials such as cement board, fiber cement board, fiber-glass reinforced board or cement plaster.

7. *Green Maintenance Guide.* Provide a guide for homeowners and renters that explains the intent, benefits, use and maintenance of Green building features, and encourages additional Green activities such as recycling, gardening and use of healthy cleaning materials.
8. *Resident Orientation.* Provide a walk-through and orientation to the homeowner or new tenants.